EAP PROPERTIES INC
Form 424B3
April 22, 2009

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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-158680

SUBJECT TO COMPLETION, DATED APRIL 22, 2009

Preliminary Prospectus Supplement
(To Prospectus dated April 22, 2009)

$

Encore Acquisition Company
% Senior Subordinated Notes due 2016

The notes will bear interest at the rate of % per year. Interest on the notes is payable on and of each year, beginning , 2009. The notes will mature on , 2016. We have the option to redeem all or a portion of the notes on and after , 2013 at the redemption prices set forth in this prospectus supplement. In addition, at any time prior to , 2012, we may redeem up to 35% of the original principal amount of the notes at the redemption price set forth in this prospectus supplement using the proceeds of specified equity offerings. We may also redeem the notes, in whole but not in part, at a redemption price equal to the principal amount of the notes plus the Applicable Premium (as defined herein) at any time prior to , 2013. Notes will be issued only in registered book-entry form, in denominations of $1,000 and integral multiples of $1,000.

Our obligations under the notes will be fully and unconditionally guaranteed on a senior subordinated basis by our existing and some of our future restricted subsidiaries.

Investing in the notes involves risks. See Risk Factors beginning on page S-9 of this prospectus supplement and on page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Public Offering Price	%	$
Underwriting Discount	%	$
Proceeds to Encore (before expenses)	%	$

Interest on the notes will accrue from April , 2009 to the date of delivery.

The underwriters expect to deliver the notes to purchasers on or about April , 2009.

Joint Book-Running Managers

Banc of America Securities LLC **Wachovia Securities**

Co-Managers

BNP PARIBAS	**CAYLON**	**Fortis Securities LLC**
RBC Capital Markets	**Comerica Securities**	**U.S. Bancorp Investments, Inc.**
BBVA Securities	**Daiwa Securities America Inc.**	**DnB NOR Markets**
DZ Financial Markets LLC	**Natixis Bleichroeder Inc.**	**Scotia Capital**
RBS	**SunTrust Robinson Humphrey**	**Wedbush Morgan Securities Inc.**

April , 2009

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer or sale is not permitted. You should not assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of this prospectus supplement or the accompanying prospectus or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. If the information varies between this prospectus supplement and the accompanying prospectus, the information in this prospectus supplement supersedes the information in the accompanying prospectus.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you should consider before investing in the notes. We encourage you to read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in their entirety before making an investment decision, including the information set forth under the heading Risk Factors. References to EAC, we, our, or us refer to Encore Acquisition Company and its subsidiaries. References to ENP refer to Encore Energy Partners LP and its subsidiaries. The estimates of proved oil and natural gas reserves at December 31, 2008 included in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference are based upon the reports of Miller and Lents, Ltd., independent petroleum engineers.

Encore Acquisition Company

We are a Delaware corporation engaged in the acquisition and development of oil and natural gas reserves from onshore fields in the United States. Since 1998, we have acquired producing properties with proven reserves and leasehold acreage and grown the production and proven reserves by drilling, exploring and reengineering or expanding existing waterflood projects. Our properties and our oil and natural gas reserves are located in four core areas:

- the Cedar Creek Anticline (CCA) in the Williston Basin in Montana and North Dakota;
- the Permian Basin in West Texas and southeastern New Mexico;
- the Rockies, which includes non-CCA assets in the Williston, Big Horn and Powder River Basins in Wyoming, Montana and North Dakota, and the Paradox Basin in southeastern Utah; and
- the Mid-Continent area, which includes the Arkoma and Anadarko Basins in Oklahoma, the North Louisiana Salt Basin, the East Texas Basin and the Mississippi Salt Basin.

Our estimated total proved reserves at December 31, 2008 were 134.5 million barrels of oil and 307.5 billion cubic feet of natural gas, based on December 31, 2008 spot market prices of $44.60 per barrel for oil and $5.62 per thousand cubic feet for natural gas. On a barrel of oil equivalent basis, our proved reserves were 185.7 million barrels of oil equivalent at December 31, 2008, of which approximately 72 percent was oil and approximately 80 percent was proved developed.

In 2008, we drilled 88 gross (67.8 net) operated productive wells and participated in drilling 194 gross (37.0 net) non-operated productive wells for a total of 282 gross (104.8 net) productive wells. Also in 2008, we drilled 7 gross (4.9 net) operated dry holes and participated in drilling another 6 gross (1.9 net) dry holes for a total of 13 gross (6.8 net) dry holes. This represents a success rate of over 95 percent during 2008.

The following table sets forth the net production, proved reserve quantities and present value of future net revenues, or PV-10, of our properties by principal area of operation as of and for the periods indicated:

2008 Net Production	Proved Reserve Quantities at December 31, 2008	PV-10

	Oil	Natural Gas	Total	Percent	Oil	Natural Gas	Total	Percent	at December 31, 2008	
									Amount(a)	Percent
	(MBbls)	(MMcf)	(MBOE)		(MBbls)	(MMcf)	(MBOE)		(In thousands)	
CA	4,146	978	4,309	30%	71,892	13,327	74,113	40%	$ 550,734	39
ermian Basin	1,246	12,442	3,320	23%	19,736	161,720	46,689	25%	362,000	26
ockies	4,256	1,870	4,567	32%	40,074	16,552	42,833	23%	326,196	23
id-Continent	402	11,084	2,250	15%	2,750	115,921	22,070	12%	170,019	12
otal	10,050	26,374	14,446	100%	134,452	307,520	185,705	100%	$ 1,408,949	100

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(a) Standardized Measure at December 31, 2008 was $1.2 billion. Standardized Measure differs from PV-10 by $189.0 million because Standardized Measure includes the effects of future net abandonment costs and future income taxes. Since we are taxed at the corporate level, future income taxes are determined on a combined property basis and cannot be accurately subdivided among our core areas. Therefore, we believe PV-10 provides the best method for assessing the relative value of each of our areas.

As of April 22, 2009, we owned 20,924,055 of ENP s outstanding common units, representing an approximate 62 percent limited partner interest. Through our indirect ownership of ENP s general partner, we also hold all 504,851 general partner units, representing a 1.5 percent general partner interest in ENP.

Business Strategy

Our primary business objective is to maximize shareholder value by growing production, repaying debt or repurchasing shares of our common stock, prudently investing internally generated cash flows, efficiently operating our properties and maximizing long-term profitability. Our strategy for achieving this objective is to:

Maintain a development program to maximize existing reserves and production. Our technological expertise, combined with our proficient field operations and reservoir engineering, has allowed us to increase production on our properties through infill, offset and re-entry drilling, workovers and recompletions. Our plan is to maintain an inventory of exploitation and development projects that provide a good source of future production.

Utilize enhanced oil recovery techniques to maximize existing reserves and production. We budget a portion of internally generated cash flows for secondary and tertiary recovery projects that are longer-term in nature to increase production and proved reserves on our properties. Throughout our Williston and Permian Basin properties, we have successfully used waterfloods to increase production. On certain of our non-operated properties in the Rockies, a tertiary recovery technique that uses carbon dioxide instead of water is being used successfully. Throughout our Bell Creek properties, we have successfully used a polymer injection program to increase our production. We believe that these enhanced oil recovery projects will continue to be a source of reserve and production growth.

Expand our reserves, production and development inventory through a disciplined acquisition program. Using our experience, we have developed and refined an acquisition program designed to increase our reserves and complement our core properties. We have a staff of engineering and geoscience professionals who manage our core properties and use their experience and expertise to target and evaluate attractive acquisition opportunities. Following an acquisition, our technical professionals seek to enhance the value of the new assets through a proven development and exploitation program. We will continue to evaluate acquisition opportunities with the same disciplined commitment to acquire assets that fit our existing portfolio of properties and create value for our shareholders.

Explore for reserves. We believe exploration programs can provide a rate of return comparable to property acquisitions in certain areas. We seek to acquire undeveloped acreage and/or enter into development arrangements to explore in areas that complement our existing portfolio of properties. Successful exploration projects would expand our existing fields and could set up multi-well exploitation projects in the future.

Operate in a cost effective, efficient and safe manner. As of December 31, 2008, we operated properties representing approximately 79 percent of our proved reserves, which allows us to better control expenses, capital allocation, operate in a safe manner and control timing of investments.

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Recent Developments

On April 22, 2009, we announced oil and natural gas revenues of $113.5 million in the first quarter of 2009 as compared to $268.8 million reported in the first quarter of 2008. Average daily production volumes for the first quarter of 2009 increased 10 percent over the first quarter of 2008, increasing from 38,196 barrels of oil equivalent per day to 41,900 barrels of oil equivalent per day. Our average wellhead oil price, which represents the net price we receive for our oil production, fell to $35.48 per Bbl for the first quarter of 2009 from $88.65 per Bbl in the first quarter of 2008. In addition, our realized natural gas price fell to $3.28 in the first quarter of 2009 from $8.28 in the first quarter of 2008. We reported a net loss for the first quarter of 2009 of $7.6 million ($0.15 per diluted share) as compared to net income of $31.2 million ($0.58 per diluted share) for the first quarter of 2008. As of March 31, 2009, there were $353 million of outstanding borrowings and $547 million of borrowing capacity under our Revolving Credit Facility.

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The Offering

Issuer	Encore Acquisition Company.
Notes offered	$ million aggregate principal amount of senior subordinated notes due 2016.
Interest rate and payment dates	% per annum payable on and of each year, commencing on , 2009.
Maturity date	, 2016.
Ranking	The notes will be our senior subordinated unsecured obligations. They will rank equal in right of payment with any of our existing or future Senior Subordinated Indebtedness and subordinated in right of payment to our obligations under our Revolving Credit Facility and any of our other existing and future Senior Indebtedness. As of December 31, 2008, on a pro forma as adjusted basis after giving effect to this offering, the application of the estimated net proceeds from this offering and amounts outstanding under our Revolving Credit Facility as of April 21, 2009, we would have had approximately $ billion of Senior Indebtedness. The terms Revolving Credit Facility, Senior Indebtedness and Senior Subordinated Indebtedness are defined under Description of the Notes Certain Definitions.
Guarantees	The payment of the principal, interest and premium on the notes will be fully and unconditionally guaranteed on a senior subordinated basis by our existing and some of our future restricted subsidiaries. See Description of the Notes Guarantees.
Optional redemption	Prior to , 2012, we are entitled to redeem up to 35% of the aggregate principal amount of the notes issued, including any additional notes we may issue, from the proceeds of certain equity offerings, so long as: we pay to the holders of such notes a redemption price of % of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption; and at least 65% of the aggregate principal amount of the notes issued, including any additional notes we may issue, remains outstanding after each such redemption, other than notes held by us or our affiliates. Prior to , 2013, we are entitled to redeem the notes as a whole at a redemption price equal to the principal amount of the notes plus the Applicable Premium and accrued and unpaid interest to the date of redemption. The term Applicable Premium is defined under Description of the Notes Certain Definitions.

On and after , 2013, we may redeem some or all of the notes at any time at the prices listed under Description of the Notes Optional Redemption, plus accrued and unpaid interest to the date of redemption.

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Restrictive covenants	The indenture governing the notes will limit what we and our restricted subsidiaries do. The provisions of the indenture will limit our and such subsidiaries ability, among other things, to: incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness; make investments; incur liens; create any consensual limitation on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us; engage in transactions with our affiliates; sell assets, including capital stock of our subsidiaries; and consolidate, merge or transfer assets. During any period that the notes have investment grade ratings from both Moody s Investors Service, Inc. and Standard and Poor s Ratings Services and no default has occurred and is continuing, the foregoing covenants will cease to be in effect with the exception of covenants that contain limitations on liens and on, among other things, certain consolidations, mergers and transfers of assets. These covenants are subject to important exceptions and qualifications described under Description of the Notes Certain Covenants.
Change of control	If we experience a Change of Control, subject to certain conditions, we must give holders of the notes the opportunity to sell to us their notes at 101% of the principal amount, plus accrued and unpaid interest. The term Change of Control is defined under Description of the Notes Change of Control.
Trading	The notes will not be registered on any national securities exchange.
Original issue discount	The notes will be issued with original issue discount for United States federal income tax purposes. Such original issue discount will accrue from the issue date of the notes and will be included as interest income periodically in a U.S. holder s gross income for United States federal income tax purposes in advance of receipt of the cash payments to which such income is attributable. Please see Certain United States Federal Tax Considerations.

Use of proceeds	The net proceeds from this offering will be approximately $ million, after deducting underwriting discounts and commissions and estimated expenses of the offering. We intend to use the net proceeds from this offering to repay amounts outstanding under our Revolving Credit Facility. Please see Use of Proceeds. Affiliates of all of the underwriters are lenders under our Revolving Credit Facility and, accordingly, will receive a substantial portion of the proceeds from this offering.

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Summary Consolidated Financial and Operating Data

The following table presents summary consolidated financial and operating data as of and for the periods indicated, which is derived from our audited consolidated financial statements. Certain amounts of prior periods have been reclassified in order to conform to the current period presentation. You should read this information in conjunction with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data contained in our 2008 Annual Report on Form 10-K, which we incorporate by reference.

	Year Ended December 31,(a)		
	2008	2007	2006
	(In thousands)		
Consolidated Statements of Operations Data:			
Revenues(b):			
Oil	$ 897,443	$ 562,817	$ 346,974
Natural gas	227,479	150,107	146,325
Marketing(c)	10,496	42,021	147,563
Total revenues	1,135,418	754,945	640,862
Expenses:			
Production:			
Lease operating	175,115	143,426	98,194
Production, ad valorem and severance taxes	110,644	74,585	49,780
Depletion, depreciation and amortization	228,252	183,980	113,463
Impairment of long-lived assets(d)	59,526		
Exploration	39,207	27,726	30,519
General and administrative	48,421	39,124	23,194
Marketing(c)	9,570	40,549	148,571
Derivative fair value loss (gain)(e)	(346,236)	112,483	(24,388)
Provision for doubtful accounts	1,984	5,816	1,970
Other operating	12,975	17,066	8,053
Total expenses	339,458	644,755	449,356
Operating income	795,960	110,190	191,506
Other income (expenses):			
Interest	(73,173)	(88,704)	(45,131)
Other	3,898	2,667	1,429
Total other expenses	(69,275)	(86,037)	(43,702)
Income before income taxes and minority interest	726,685	24,153	147,804
Income tax provision	(241,621)	(14,476)	(55,406)
Minority interest in loss (income) of consolidated partnership	(54,252)	7,478	

Net income	$ 430,812	$ 17,155	$ 92,398

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	Year Ended December 31,(d) 2008	2007	2006
	(In thousands, except ratios)		
Other Financial Data:			
Ratio of earnings to fixed charges:	10.7x	1.3x	4.2x
Cash provided by (used in):			
Operating activities	$ 663,237	$ 319,707	$ 297,333
Investing activities	(728,346)	(929,556)	(397,430)
Financing activities	65,444	610,790	99,206
Consolidated Balance Sheets Data:			
Working capital	$ 188,678	$ (16,220)	$ (40,745)
Total assets	3,633,195	2,784,561	2,006,900
Long-term debt	1,319,811	1,120,236	661,696
Stockholders equity	1,314,128	948,155	816,865

(a) We acquired certain oil and natural gas properties and related assets in the Big Horn and Williston Basins in March 2007 and April 2007, respectively. The operating results of these acquisitions are included in our Consolidated Statements of Operations from the date of acquisition forward. We disposed of certain oil and natural gas properties and related assets in the Mid-Continent in June 2007. The operating results of this disposition are included in our Consolidated Statements of Operations through the date of disposition.

(b) For 2008, 2007 and 2006, we reduced oil and natural gas revenues for net profits interests by $56.5 million, $32.5 million and $23.4 million, respectively.

(c) In 2006, we began purchasing third-party oil from a counterparty other than to whom the oil was sold for aggregation and sale with our own equity production in various markets. These purchases assisted us in marketing our production by decreasing our dependence on individual markets. These activities allowed us to aggregate larger volumes, facilitated our efforts to maximize the prices we received for production, provided for a greater allocation of future pipeline capacity in the event of curtailments and enabled us to reach other markets. In 2007, we discontinued purchasing oil from third party companies as market conditions changed and pipeline space was gained. Implementing this change allowed us to focus on the marketing of our own oil production, leveraging newly gained pipeline space, and delivering oil to various newly developed markets in an effort to maximize the value of the oil at the wellhead. In March 2007, ENP acquired a natural gas pipeline as part of the Big Horn Basin asset acquisition. Natural gas volumes are purchased from numerous gas producers at the inlet to the pipeline and resold downstream to various local and off-system markets. Marketing expenses include pipeline tariffs, storage, truck facility fees and tank bottom costs used to support the sale of equity crude, the revenues of which are included in our oil revenues instead of marketing revenues.

(d) During 2008, circumstances indicated that the carrying amounts of certain oil and natural gas properties, primarily four wells in the Tuscaloosa Marine Shale, may not be recoverable. We compared the assets carrying amounts to the undiscounted expected future net cash flows, which indicated a need for an impairment charge. We then compared the net carrying amounts of the impaired assets to their estimated fair value, which resulted in a write-down of the value of proved oil and natural gas properties of $59.5 million. Fair value was determined using estimates of future production volumes and estimates of future prices we might receive for these volumes, discounted to a present value.

(e) During July 2006, we elected to discontinue hedge accounting prospectively for all of our remaining commodity derivative contracts which were previously accounted for as hedges. From that point forward, all mark-to-market gains or losses on all commodity derivative contracts are recorded in Derivative fair value loss (gain) while in periods prior to that point, only the ineffective portions of commodity derivative contracts which were designated as hedges were recorded in Derivative fair value loss (gain).

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">Taxable interest	8,277	8,476	16,427	17,972
Tax-exempt interest	1,010	1,000	2,008	1,994
Dividends	8	1	17	

	2
Interest on deposits in other banks	
	11
	8
	22
	15
Dividends on Federal Home Loan Bank stock	
	18
	11
	29
	23
Total interest income	
	38,896
	37,536

76,677

74,929

Interest expense:

Interest on deposits:

Demand	
	99
	91
	194
	181
Savings and money market	
	225
	223
	448
	447
Time	

	549
	621
	1,097
	1,251
Interest on short-term borrowings	
	79
	55
	122
	72
Interest on long-term debt	
	650
	640
	1,287
	1,276

Total interest expense	
	1,602
	1,630
	3,148
	3,227
Net interest income	
	37,294
	35,906
	73,529

71,702

Provision (credit) for loan and lease losses

(7,319

)

1,995

(10,066

)

679

Net interest income after credit for loan and lease losses

44,613

33,911

83,595

71,023

Other operating income:	
Service charges on deposit accounts	1,915
	1,989
	3,883
	3,982
Loan servicing fees	1,427

	1,448
	2,850
	2,892
Other service charges and fees	
	2,781
	3,083
	5,886
	6,026
Income from fiduciary activities	
	830
	828
	1,664
	1,890
Equity in earnings of unconsolidated subsidiaries	

229

359

325

411

Fees on foreign exchange

98

119

226

233

Investment securities gains (losses)

(1,866

)

240

(1,866

)

240

Income from bank-owned life insurance	
	461
	766
	1,135
	1,436
Loan placement fees	
	225
	178
	372
	321
Net gain on sales of residential loans	
	1,630
	1,227
	3,224

	2,466
Net gain on sales of foreclosed assets	
	94
	582
	127
	744
Other	
	300
	1,185
	1,488
	1,507
Total other operating income	
	8,124
	12,004

19,314

22,148

Other operating expense:

Salaries and employee benefits

15,176

	16,550
	32,341
	33,984
Net occupancy	
	3,403
	3,734
	6,904
	7,324
Equipment	
	933
	945
	1,842
	1,741
Amortization of other intangible assets	

	1,559
	1,318
	3,664
	2,558
Communication expense	
	942
	874
	1,766
	1,768
Legal and professional services	
	1,642
	2,228
	3,861
	4,040

Computer software expense	2,382	1,575	4,478	2,933
Advertising expense	449	678	1,084	1,364
Foreclosed asset expense	257	(17)	329	

	88
Other	
	5,715
	5,003
	10,207
	9,018
Total other operating expense	
	32,458
	32,888
	66,476
	64,818

Income before income taxes	20,279	13,027	36,433	28,353
Income tax expense	7,944	3,877	13,703	9,395
Net income	$			

	12,335
$	
	9,150
$	
	22,730
$	
	18,958

Per common share data:

Basic earnings per share	$ 0.39	$ 0.25	$ 0.69	$ 0.49
Diluted earnings per share	0.39	0.25	0.68	0.48
Cash dividends declared				

0.12

0.08

0.24

0.16

Shares used in computation:

Basic shares	
	31,525
	36,117
	33,167
	39,000
Diluted shares	
	31,953
	36,656
	33,588
	39,405

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Net income	$ 12,335	$ 9,150	$ 22,730	$ 18,958
Other comprehensive income (loss), net of tax				
Net change in unrealized gain (loss) on investment securities	(11,370)	10,310	(4,461)	19,886
Minimum pension liability adjustment	256	190	516	377
Other comprehensive income (loss), net of tax	(11,114)	10,500	(3,945)	20,263
Comprehensive income	$ 1,221	$ 19,650	$ 18,785	$ 39,221

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

	Common Shares Outstanding	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interests	Total
	(Dollars in thousands, except per share data)							
Balance at December 31, 2014	35,233,674	$	$ 642,205	$ 79,716	$ (157,039)	$ 3,159	$	$ 568,041
Net income					22,730			22,730
Other comprehensive income						(3,945)		(3,945)
Cash dividends ($0.24 per share)					(7,958)			(7,958)
8,159 net shares of common stock sold by directors deferred compensation plan			(154)					(154)
3,950,781 shares of common stock repurchased and other related costs	(3,950,781)		(89,524)					(89,524)
Share-based compensation	218,740			(343)				(343)
Balance at June 30, 2015	31,501,633	$	$ 552,527	$ 79,373	$ (142,267)	$ (786)	$	$ 488,847
Balance at December 31, 2013	42,107,633	$	$ 784,547	$ 75,498	$ (184,087)	$ (15,845)	$ 61	$ 660,174
Net income					18,958			18,958
Other comprehensive income						20,263		20,263
Cash dividends ($0.16 per share)					(6,251)			(6,251)
1,118 net shares of common stock sold by directors deferred compensation plan			(11)					(11)
6,369,266 shares of common stock repurchased and other related costs	(6,369,266)		(129,391)					(129,391)
Share-based compensation	162,713		74	813				887
Non-controlling interests							(61)	(61)
Balance at June 30, 2014	35,901,080	$	$ 655,219	$ 76,311	$ (171,380)	$ 4,418	$	$ 564,568

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 22,730	$ 18,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan and lease losses	(10,066)	679
Depreciation and amortization	2,954	2,909
Write down of other real estate, net of gain on sale	140	(457)
Amortization of other intangible assets	3,664	2,558
Net amortization of investment securities	4,584	4,160
Share-based compensation	(343)	813
Net (gain) loss on investment securities	1,866	(240)
Net gain on sales of residential loans	(3,224)	(2,466)
Proceeds from sales of loans held for sale	201,059	177,204
Originations of loans held for sale	(211,071)	(170,832)
Equity in earnings of unconsolidated subsidiaries	(325)	(411)
Increase in cash surrender value of bank-owned life insurance	(1,455)	(1,638)
Deferred income taxes	12,853	9,438
Net change in other assets and liabilities	4,206	(5,119)
Net cash provided by operating activities	27,572	35,556
Cash flows from investing activities:		
Proceeds from maturities of and calls on investment securities available for sale	81,536	66,804
Proceeds from sales of investment securities available for sale	117,496	162,470
Purchases of investment securities available for sale	(257,793)	(18,989)
Proceeds from maturities of and calls on investment securities held to maturity	12,159	7,098
Purchases of investment securities held to maturity	(37,043)	(2,443)
Net loan originations	(54,491)	(143,303)
Purchase of loan portfolio	(28,109)	(22,690)
Proceeds from sales of loans originated for investment	6,658	
Proceeds from sale of other real estate	2,567	1,884
Proceeds from bank-owned life insurance	723	
Purchases of premises and equipment	(1,421)	(2,573)
Net return of capital from unconsolidated subsidiaries	286	862
Net proceeds from redemption of FHLB stock	31,803	1,182
Net cash provided by (used in) investing activities	(125,629)	50,302
Cash flows from financing activities:		
Net increase in deposits	72,022	66,405
Repayments of long-term debt		(9)
Net increase in short-term borrowings	119,000	20,985
Cash dividends paid on common stock	(7,958)	(6,251)
Repurchases of common stock and other related costs	(89,524)	(129,391)
Net proceeds from issuance of common stock and stock option exercises		74
Net cash provided by (used in) financing activities	93,540	(48,187)

Net increase (decrease) in cash and cash equivalents		(4,517)		37,671
Cash and cash equivalents at beginning of period		86,007		49,348
Cash and cash equivalents at end of period	$	81,490	$	87,019
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	3,239	$	3,283
Income taxes		880		
Cash received during the period for:				
Income taxes				79
Supplemental disclosure of noncash investing and financing activities:				
Net change in common stock held by directors deferred compensation plan	$	154	$	11
Net reclassification of loans to other real estate		5,037		1,511
Net transfer of loans to loans held for sale		6,648		

See accompanying notes to consolidated financial statements.

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CENTRAL PACIFIC FINANCIAL CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Central Pacific Financial Corp. and Subsidiaries (herein referred to as the Company, we, us or our) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with the Company s consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended December 31, 2014. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Certain prior period amounts in the consolidated financial statements and the notes thereto have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or shareholders equity for any periods presented.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-01, *Investments Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects.* The provisions of ASU 2014-01 provide guidance on accounting for investments by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The ASU permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The Company did not elect the use of the proportional amortization method of ASU 2014-01 on January 1, 2015, which has no material impact on our consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The provisions of ASU 2014-04 provide guidance on when an in substance repossession or foreclosure occurs, which is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. Additionally, the amendments in this update require interim and annual disclosure of both: 1) the amount of foreclosed residential real estate property held by the creditor and 2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The Company adopted the prospective transition method of ASU 2014-04 on January 1, 2015, and the adoption did not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* ASU 2014-11 requires two accounting changes. First, the amendments change the accounting for repurchase-to-maturity transactions to secured borrowings. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. ASU 2014-11 requires disclosures for certain transactions comprising a transfer of a financial asset accounted for as a sale, and an agreement with the same transferee entered into in contemplation of the initial transfer which results in the transferor retaining substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. ASU 2014-11 also requires additional disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The adoption of ASU 2014-11 on January 1, 2015 did not have a material impact on our consolidated financial statements.

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In August 2014, the FASB issued ASU 2014-14, *Receivables Troubled Debt Restructurings by Creditors Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure.* ASU 2014-14 requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1) the loan has a government guarantee that is not separable from the loan before foreclosure; 2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and 3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The adoption of ASU 2014-14 on January 1, 2015 did not have a material impact on our consolidated financial statements.

3. INVESTMENT SECURITIES

A summary of available for sale and held to maturity investment securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(Dollars in thousands)		
At June 30, 2015:				
Held to Maturity:				
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	$ 166,200	$ 111	$ (3,081)	$ 163,230
Commercial - U.S. Government sponsored entities	96,578		(658)	95,920
Total	$ 262,778	$ 111	$ (3,739)	$ 259,150
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 188,899	$ 2,169	$ (2,811)	$ 188,257
Corporate securities	98,454	1,262	(154)	99,562
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	776,223	7,559	(5,715)	778,067
Residential - Non-government agencies	69,603	1,273	(519)	70,357
Commercial - Non-government agencies	135,535	2,566	(950)	137,151
Other	817	101		918
Total	$ 1,269,531	$ 14,930	$ (10,149)	$ 1,274,312
At December 31, 2014:				
Held to Maturity:				
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	$ 140,741	$ 196	$ (2,150)	$ 138,787
Commercial - U.S. Government sponsored entities	97,546		(736)	96,810
Total	$ 238,287	$ 196	$ (2,886)	$ 235,597
Available for Sale:				
Debt securities:				
States and political subdivisions	$ 191,280	$ 2,054	$ (1,689)	$ 191,645
Corporate securities	99,237	1,492	(125)	100,604
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	744,527	11,064	(4,033)	751,558
Residential - Non-government agencies	45,275	1,510	(92)	46,693

Commercial - Non-government agencies		135,630		2,946		(935)		137,641
Other		757		120				877
Total	$	1,216,706	$	19,186	$	(6,874)	$	1,229,018

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The amortized cost and estimated fair value of investment securities at June 30, 2015 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2015	
	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)	
Held to Maturity		
Mortage-backed securities:		
Residential - U.S. Government sponsored entities	$ 166,200	$ 163,230
Commercial - U.S. Government sponsored entities	96,578	95,920
Total	$ 262,778	$ 259,150
Available for Sale		
Due in one year or less	$ 2,567	$ 2,660
Due after one year through five years	76,206	77,321
Due after five years through ten years	96,501	96,678
Due after ten years	112,079	111,160
Mortage-backed securities:		
Residential - U.S. Government sponsored entities	776,223	778,067
Residential - Non-government agencies	69,603	70,357
Commercial - Non-government agencies	135,535	137,151
Other	817	918
Total	$ 1,269,531	$ 1,274,312

During the three months ended June 30, 2015, we sold certain available for sale investment securities for gross proceeds of $117.5 million. Gross realized losses on the sales of the available for sale investment securities were $1.9 million during the three months ended June 30, 2015. We did not sell any available for sale securities during the first quarter of 2015. The specific identification method was used as the basis for determining the cost of all securities sold.

During the three months ended June 30, 2014, we sold certain available for sale investment securities for gross proceeds of $162.5 million. Gross realized gains and losses on the sales of the available for sale investment securities were $0.9 million and $0.7 million, respectively, during the three months ended June 30, 2014. We did not sell any available for sale securities during the first quarter of 2014. The specific identification method was used as the basis for determining the cost of all securities sold.

Investment securities of $959.0 million and $900.5 million at June 30, 2015 and December 31, 2014, respectively, were pledged to secure public funds on deposit and other long-term and short-term borrowings.

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Provided below is a summary of the 216 and 195 investment securities which were in an unrealized loss position at June 30, 2015 and December 31, 2014, respectively.

Description of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	12 months or longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
			(Dollars in thousands)			
At June 30, 2015:						
Debt securities:						
States and political subdivisions	$ 66,678	$ (1,558)	$ 22,780	$ (1,253)	$ 89,458	$ (2,811)
Corporate securities	26,349	(154)			26,349	(154)
Mortgage-backed securities:						
Residential - U.S. Government sponsored entities	464,847	(6,464)	87,126	(2,332)	551,973	(8,796)
Residential - Non-government agencies	30,478	(519)			30,478	(519)
Commercial - U.S. Government sponsored entities	95,920	(658)			95,920	(658)
Commercial - Non-government agencies	57,620	(794)	4,653	(156)	62,273	(950)
Total temporarily impaired securities	$ 741,892	$ (10,147)	$ 114,559	$ (3,741)	$ 856,451	$ (13,888)
At December 31, 2014:						
Debt securities:						
States and political subdivisions	$ 23,591	$ (145)	$ 68,622	$ (1,544)	$ 92,213	$ (1,689)
Corporate securities	23,938	(125)			23,938	(125)
Mortgage-backed securities:						
Residential - U.S. Government sponsored entities	107,755	(487)	318,571	(5,696)	426,326	(6,183)
Residential - Non-government agencies	15,895	(92)			15,895	(92)
Commercial - U.S. Government sponsored entities	11,455	(34)	85,355	(702)	96,810	(736)
Commercial - Non-government agencies	4,962	(8)	47,539	(927)	52,501	(935)
Total temporarily impaired securities	$ 187,596	$ (891)	$ 520,087	$ (8,869)	$ 707,683	$ (9,760)

Other-Than-Temporary Impairment (OTTI)

Unrealized losses for all investment securities are reviewed to determine whether the losses are deemed other-than-temporary. Investment securities are evaluated for OTTI on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value below amortized cost is other-than-temporary. In conducting this assessment, we evaluate a number of factors including, but not limited to:

- The length of time and the extent to which fair value has been less than the amortized cost basis;
- Adverse conditions specifically related to the security, an industry, or a geographic area;
- The historical and implied volatility of the fair value of the security;

- The payment structure of the debt security and the likelihood of the issuer being able to make payments;
- Failure of the issuer to make scheduled interest or principal payments;
- Any rating changes by a rating agency; and
- Recoveries or additional declines in fair value subsequent to the balance sheet date.

The term other-than-temporary is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a general lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized for anticipated credit losses.

Because we have no intent to sell securities in an unrealized loss position and it is not more likely than not that we will be required to sell such securities before recovery of its amortized cost basis, we do not consider our investments to be other-than-temporarily impaired.

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4. LOANS AND LEASES

Loans and leases, excluding loans held for sale, consisted of the following:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 499,078	$ 463,070
Real estate:		
Construction	83,833	115,023
Mortgage - residential	1,349,594	1,280,089
Mortgage - commercial	695,995	704,099
Consumer	373,588	365,662
Leases	2,589	3,140
	3,004,677	2,931,083
Net deferred costs	1,378	1,115
Total loans and leases	$ 3,006,055	$ 2,932,198

During the six months ended June 30, 2015, we transferred the collateral in six portfolio loans with a carrying value of $1.6 million to other real estate and two portfolio loans to a single borrower with a carrying value of $6.6 million to the held-for-sale category. In June 2015, we purchased participation interest in auto loans totaling $28.1 million, which included a $1.0 million premium over the $27.1 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 79 months. No portfolio loans were sold during the six months ended June 30, 2015.

During the six months ended June 30, 2014, we transferred three loans with a carrying value of $1.5 million to other real estate. We did not transfer any portfolio loans to the held-for-sale category and no portfolio loans were sold during the six months ended June 30, 2014. In May 2014, we purchased participation interest in auto loans totaling $11.2 million, which included a $0.3 million premium over the $10.9 million outstanding balance. At the time of purchase, the auto loans had a weighted average remaining term of 71 months. In May 2014, we also purchased participation interest in student loans totaling $11.5 million, which represented the outstanding balance at the time of purchase. At the time of purchase, the student loans had a weighted average remaining term of 123 months.

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Impaired Loans

The following table presents by class, the balance in the allowance for loan and lease losses and the recorded investment in loans and leases based on the Company s impairment measurement method as of June 30, 2015 and December 31, 2014:

	Commercial, Financial & Agricultural	Construction	Real Estate Mortgage - Residential	Real Estate Mortgage - Commercial	Consumer	Leases	Total
	(Dollars in thousands)						
June 30, 2015							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 58	$	$	$	$	$	$ 58
Collectively evaluated for impairment	7,511	10,670	17,846	20,008	7,330	1	63,366
	7,569	10,670	17,846	20,008	7,330	1	63,424
Unallocated							3,500
Total ending balance	$ 7,569	$ 10,670	$ 17,846	$ 20,008	$ 7,330	$ 1	$ 66,924
Loans and leases:							
Individually evaluated for impairment	$ 3,513	$ 4,474	$ 26,654	$ 14,850	$	$	$ 49,491
Collectively evaluated for impairment	495,565	79,359	1,322,940	681,145	373,588	2,589	2,955,186
	499,078	83,833	1,349,594	695,995	373,588	2,589	3,004,677
Net deferred costs (income)	523	(278)	2,368	(802)	(433)		1,378
Total ending balance	$ 499,601	$ 83,555	$ 1,351,962	$ 695,193	$ 373,155	$ 2,589	$ 3,006,055
December 31, 2014							
Allowance for loan and lease losses:							
Ending balance attributable to loans:							
Individually evaluated for impairment	$ 1,533	$	$	$	$	$	$ 1,533
Collectively evaluated for impairment	7,421	14,969	17,927	20,869	7,314	7	68,507
	8,954	14,969	17,927	20,869	7,314	7	70,040
Unallocated							4,000
Total ending balance	$ 8,954	$ 14,969	$ 17,927	$ 20,869	$ 7,314	$ 7	$ 74,040
Loans and leases:							
Individually evaluated for impairment	$ 13,369	$ 4,888	$ 30,893	$ 23,126	$	$	$ 72,276
Collectively evaluated for impairment	449,701	110,135	1,249,196	680,973	365,662	3,140	2,858,807
	463,070	115,023	1,280,089	704,099	365,662	3,140	2,931,083
Net deferred costs (income)	693	(469)	2,235	(826)	(518)		1,115
Total ending balance	$ 463,763	$ 114,554	$ 1,282,324	$ 703,273	$ 365,144	$ 3,140	$ 2,932,198

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The following table presents by class, impaired loans as of June 30, 2015 and December 31, 2014:

	Unpaid Principal Balance	Recorded Investment (Dollars in thousands)	Allowance Allocated
June 30, 2015			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 1,303	$ 1,192	$
Real estate:			
Construction	10,820	4,474	
Mortgage - residential	28,967	26,654	
Mortgage - commercial	17,967	14,850	
Total impaired loans with no related allowance recorded	59,057	47,170	
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	3,789	2,321	58
Total impaired loans with an allowance recorded	3,789	2,321	58
Total	$ 62,846	$ 49,491	$ 58
December 31, 2014			
Impaired loans with no related allowance recorded:			
Commercial, financial & agricultural	$ 738	$ 738	$
Real estate:			
Construction	11,275	4,888	
Mortgage - residential	34,131	30,893	
Mortgage - commercial	30,249	23,126	
Total impaired loans with no related allowance recorded	76,393	59,645	
Impaired loans with an allowance recorded:			
Commercial, financial & agricultural	16,630	12,631	1,533
Total impaired loans with an allowance recorded	16,630	12,631	1,533
Total	$ 93,023	$ 72,276	$ 1,533

The following table presents by class, the average recorded investment and interest income recognized on impaired loans for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
	Average Recorded Investment	Interest Income Recognized (Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial, financial & agricultural	$ 6,911	$ 5	$ 17,300	$ 6	$ 10,278	$ 10	$ 12,858	$ 11
Real estate:								
Construction	4,518	26	5,225	44	4,608	112	6,024	76
Mortgage - residential	27,312	(7)	33,419	274	28,134	(6)	34,913	437
Mortgage - commercial	16,438	175	16,201	76	19,595	339	16,123	115
Total	$ 55,179	$ 199	$ 72,145	$ 400	$ 62,615	$ 455	$ 69,918	$ 639

The Company had $3.0 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure at June 30, 2015.

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Aging Analysis of Accruing and Non-Accruing Loans and Leases

For all loan types, the Company determines delinquency status by considering the number of days full payments required by the contractual terms of the loan are past due. The following table presents by class, the aging of the recorded investment in past due loans and leases as of June 30, 2015 and December 31, 2014:

	Accruing Loans 30 - 59 Days Past Due	Accruing Loans 60 - 89 Days Past Due	Accruing Loans Greater Than 90 Days Past Due	Nonaccrual Loans	Total Past Due and Nonaccrual	Loans and Leases Not Past Due	Total
				(Dollars in thousands)			
June 30, 2015							
Commercial, financial & agricultural	$ 128	$ 52	$	$ 3,175	$ 3,355	$ 496,246	$ 499,601
Real estate:							
Construction				133	133	83,422	83,555
Mortgage - residential	724	183		10,032	10,939	1,341,023	1,351,962
Mortgage - commercial				13,490	13,490	681,703	695,193
Consumer	1,236	431	45		1,712	371,443	373,155
Leases						2,589	2,589
Total	$ 2,088	$ 666	$ 45	$ 26,830	$ 29,629	$ 2,976,426	$ 3,006,055
December 31, 2014							
Commercial, financial & agricultural	$ 183	$ 85	$	$ 13,007	$ 13,275	$ 450,488	$ 463,763
Real estate:							
Construction				310	310	114,244	114,554
Mortgage - residential	3,078	379		13,048	16,505	1,265,819	1,282,324
Mortgage - commercial	68			12,722	12,790	690,483	703,273
Consumer	1,500	417	77		1,994	363,150	365,144
Leases						3,140	3,140
Total	$ 4,829	$ 881	$ 77	$ 39,087	$ 44,874	$ 2,887,324	$ 2,932,198

Modifications

Troubled debt restructurings (TDRs) included in nonperforming assets at June 30, 2015 consisted of 30 Hawaii residential mortgage loans with a combined principal balance of $6.1 million, a Hawaii commercial mortgage loan of $1.0 million, two Hawaii commercial loans with a combined principal balance of $0.9 million, and a Hawaii construction loan of $34 thousand. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $19.0 million of TDRs still accruing interest at June 30, 2015, none of which were more than 90 days delinquent. At December 31, 2014, there were $29.5 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

Some loans modified in a TDR may already be on nonaccrual status and partial charge-offs may have already been taken against the outstanding loan balance. Thus, these loans have already been identified as impaired and have already been evaluated under the Company s allowance for loan and lease losses (the Allowance) methodology. As a result, some loans modified in a TDR may have the financial effect of increasing the specific allowance associated with the loan. The loans modified in a TDR did not have a material effect on our provision for loan and lease losses (the Provision) and the Allowance during the three and six months ended June 30, 2015.

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The following table presents by class, information related to loans modified in a TDR during the three and six months ended June 30, 2015 and 2014. No loans were modified in a TDR during the three months ended June 30, 2014.

	Number of Contracts	Recorded Investment (as of Period End) (Dollars in thousands)		Increase in the Allowance
Three Months Ended June 30, 2015				
Commercial, financial & agricultural	1	$	535	$
Six Months Ended June 30, 2015				
Commercial, financial & agricultural	1	$	535	$
Real estate mortgage - residential	1		964	
Total	2	$	1,499	$
Six Months Ended June 30, 2014				
Real estate mortgage - residential	9	$	600	$

No loans were modified as a TDR within the previous twelve months that subsequently defaulted during the three and six months ended June 30, 2015 and 2014.

Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans and leases individually by classifying the loans and leases as to credit risk. This analysis includes non-homogeneous loans and leases, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans and leases classified as special mention, while still adequately protected by the borrower s capital adequacy and payment capability, exhibit distinct weakening trends and/or elevated levels of exposure to external conditions. If left unchecked or uncorrected, these potential weaknesses may result in deteriorated prospects of repayment. These exposures require management s close attention so as to avoid becoming undue or unwarranted credit exposures.

Substandard. Loans and leases classified as substandard are inadequately protected by the borrower s current financial condition and payment capability or of the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

Loss. Loans and leases classified as loss are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Losses are taken in the period in which they surface as uncollectible.

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Loans and leases not meeting the criteria above are considered to be pass-rated. The following table presents by class and credit indicator, the recorded investment in the Company s loans and leases as of June 30, 2015 and December 31, 2014:

	Pass	Special Mention	Substandard	Subtotal	Net Deferred Costs (Income)	Total
			(Dollars in thousands)			
June 30, 2015						
Commercial, financial & agricultural	$ 487,885	$ 4,855	$ 6,338	$ 499,078	$ 523	$ 499,601
Real estate:						
Construction	81,221	1,640	972	83,833	(278)	83,555
Mortgage - residential	1,339,067		10,527	1,349,594	2,368	1,351,962
Mortgage - commercial	668,926	4,047	23,022	695,995	(802)	695,193
Consumer	373,543		45	373,588	(433)	373,155
Leases	2,589			2,589		2,589
Total	$ 2,953,231	$ 10,542	$ 40,904	$ 3,004,677	$ 1,378	$ 3,006,055
December 31, 2014						
Commercial, financial & agricultural	$ 432,892	$ 14,655	$ 15,523	$ 463,070	$ 693	$ 463,763
Real estate:						
Construction	111,370		3,653	115,023	(469)	114,554
Mortgage - residential	1,265,470	352	14,267	1,280,089	2,235	1,282,324
Mortgage - commercial	660,492	10,498	33,109	704,099	(826)	703,273
Consumer	365,332	294	36	365,662	(518)	365,144
Leases	3,140			3,140		3,140
Total	$ 2,838,696	$ 25,799	$ 66,588	$ 2,931,083	$ 1,115	$ 2,932,198

In accordance with applicable Interagency Guidance issued by our primary bank regulators, we define subprime borrowers as typically having weakened credit histories that include payment delinquencies and possibly more severe problems such as charge-offs, judgments, and bankruptcies. They may also display reduced repayment capacity as measured by credit scores, debt-to-income ratios, or other criteria that may encompass borrowers with incomplete credit histories. Subprime loans are loans to borrowers displaying one or more of these characteristics at the time of origination or purchase. Such loans have a higher risk of default than loans to prime borrowers. At June 30, 2015 and December 31, 2014, we did not have any loans that we considered to be subprime.

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5. ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table presents by class, the activity in the Allowance for the periods indicated:

	Commercial, Financial & Agricultural	Construction	Real estate Mortgage - Residential	Mortgage - Commercial	Consumer	Leases	Unallocated	Total
				(Dollars in thousands)				
Three Months Ended June 30, 2015								
Beginning balance	$ 8,791	$ 14,305	$ 17,057	$ 20,161	$ 7,119	$	$ 4,000	$ 71,433
Provision (credit) for loan and lease losses	(498)	(4,099)	442	(3,715)	1,050	1	(500)	(7,319)
	8,293	10,206	17,499	16,446	8,169	1	3,500	64,114
Charge-offs	4,003		50		1,214			5,267
Recoveries	3,279	464	397	3,562	375			8,077
Net charge-offs (recoveries)	724	(464)	(347)	(3,562)	839			(2,810)
Ending balance	$ 7,569	$ 10,670	$ 17,846	$ 20,008	$ 7,330	$ 1	$ 3,500	$ 66,924
Three Months Ended June 30, 2014								
Beginning balance	$ 12,786	$ 14,940	$ 17,812	$ 25,925	$ 5,687	$ 12	$ 6,000	$ 83,162
Provision (credit) for loan and lease losses	405	243	959	988	1,402	(2)	(2,000)	1,995
	13,191	15,183	18,771	26,913	7,089	10	4,000	85,157
Charge-offs	1,482		102	1,041	671			3,296
Recoveries	546	342	529	13	305	3		1,738
Net charge-offs (recoveries)	936	(342)	(427)	1,028	366	(3)		1,558
Ending balance	$ 12,255	$ 15,525	$ 19,198	$ 25,885	$ 6,723	$ 13	$ 4,000	$ 83,599
Six Months Ended June 30, 2015								
Beginning balance	$ 8,954	$ 14,969	$ 17,927	$ 20,869	$ 7,314	$ 7	$ 4,000	$ 74,040
Provision (credit) for loan and lease losses	(324)	(4,886)	(1,902)	(4,436)	1,988	(6)	(500)	(10,066)
	8,630	10,083	16,025	16,433	9,302	1	3,500	63,974
Charge-offs	4,934		64		3,055			8,053
Recoveries	3,873	587	1,885	3,575	1,083			11,003
Net charge-offs (recoveries)	1,061	(587)	(1,821)	(3,575)	1,972			(2,950)
Ending balance	$ 7,569	$ 10,670	$ 17,846	$ 20,008	$ 7,330	$ 1	$ 3,500	$ 66,924
Six Months Ended June 30, 2014								
Beginning balance	$ 13,196	$ 2,774	$ 25,272	$ 29,947	$ 6,576	$ 55	$ 6,000	$ 83,820
Provision (credit) for loan and lease losses	(538)	12,007	(6,558)	(3,047)	854	(39)	(2,000)	679
	12,658	14,781	18,714	26,900	7,430	16	4,000	84,499
Charge-offs	1,555		139	1,041	1,251	8		3,994
Recoveries	1,152	744	623	26	544	5		3,094
Net charge-offs (recoveries)	403	(744)	(484)	1,015	707	3		900
Ending balance	$ 12,255	$ 15,525	$ 19,198	$ 25,885	$ 6,723	$ 13	$ 4,000	$ 83,599

Loans held for sale and other real estate assets are not included in our assessment of the Allowance.

Our Provisions were credits of $7.3 million and $10.1 million in the three and six months ended June 30, 2015, respectively, compared to Provisions of $2.0 million and $0.7 million in the three and six months ended June 30, 2014, respectively.

In determining the amount of our Allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as regulatory requirements and input. If our assumptions prove to be incorrect, our current Allowance may not be sufficient to cover future loan losses and we may experience significant increases to our Provision.

6. SECURITIZATIONS

In prior years, we securitized certain residential mortgage loans with a U.S. Government sponsored entity and continue to service the residential mortgage loans. The servicing assets were recorded at their respective fair values at the time of securitization.

All unsold mortgage-backed securities from prior securitizations were categorized as available for sale securities and were therefore recorded at their fair values of $3.0 million and $3.5 million at June 30, 2015 and December 31, 2014, respectively. The fair values of these mortgage-backed securities were based on quoted prices of similar instruments in active markets. Unrealized gains of $0.2 million and $0.3 million on unsold mortgage-backed securities were recorded in accumulated other comprehensive income (AOCI) at June 30, 2015 and December 31, 2014, respectively.

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7. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

The components of the Company s investments in unconsolidated subsidiaries were as follows:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Investments in low income housing tax credit partnerships	$ 3,216	$ 3,781
Trust preferred investments	2,792	2,792
Investments in affiliates	596	557
Other	116	116
	$ 6,720	$ 7,246

Investments in low income housing tax credit (LIHTC) partnerships are accounted for using the cost method. For the three and six months ended June 30, 2015, the Company recognized amortization expense in pre-tax income of $0.3 million and $0.6 million, respectively. For the three and six months ended June 30, 2014, the Company recognized amortization expense in pre-tax income of $0.4 million and $0.8 million, respectively.

For the three and six months ended June 30, 2015, the Company recognized $0.3 million and $0.6 million in tax credits associated with our investments in LIHTC partnerships, respectively. For the three months ended June 30, 2014, the Company recognized $0.9 million in tax credits associated with our investments in LIHTC partnerships. The Company did not recognize any tax credits associated with our investments in LIHTC partnerships during the three months ended March 31, 2014.

8. OTHER INTANGIBLE ASSETS

Other intangible assets include a core deposit premium and mortgage servicing rights. The following table presents changes in other intangible assets for the six months ended June 30, 2015:

	Core Deposit Premium	Mortgage Servicing Rights	Total
		(Dollars in thousands)	
Balance, beginning of period	$ 10,029	$ 19,668	$ 29,697
Additions		1,245	1,245
Amortization	(1,337)	(2,327)	(3,664)
Balance, end of period	$ 8,692	$ 18,586	$ 27,278

Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans and totaled $0.6 million and $1.2 million for the three and six months ended June 30, 2015, respectively, compared to $0.5 million and $0.9 million for the comparable prior year periods.

Amortization of mortgage servicing rights was $0.9 million and $2.3 million for the three and six months ended June 30, 2015, respectively, compared to $0.6 million and $1.2 million for the comparable prior year periods.

The following table presents the fair market value and key assumptions used in determining the fair market value of our mortgage servicing rights:

	Six Months Ended June 30, 2015	2014
	(Dollars in thousands)	
Fair market value, beginning of period	$ 19,975	$ 21,399
Fair market value, end of period	19,202	20,341
Weighted average discount rate	9.5%	8.0%
Weighted average prepayment speed assumption	13.8	15.1

The gross carrying value and accumulated amortization related to our intangible assets are presented below:

	June 30, 2015			December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	(Dollars in thousands)					
Core deposit premium	$ 44,642	$ (35,950)	$ 8,692	$ 44,642	$ (34,613)	$ 10,029
Mortgage servicing rights	56,194	(37,608)	18,586	56,687	(37,019)	19,668
	$ 100,836	$ (73,558)	$ 27,278	$ 101,329	$ (71,632)	$ 29,697

Based on the core deposit premium and mortgage servicing rights held as of June 30, 2015, estimated amortization expense for the remainder of fiscal year 2015, the next five succeeding fiscal years and all years thereafter are as follows:

	Estimated Amortization Expense		
	Core Deposit Premium	Mortgage Servicing Rights	Total
	(Dollars in thousands)		
2015 (remainder)	$ 1,337	$ 1,482	$ 2,819
2016	2,674	2,322	4,996
2017	2,674	1,646	4,320
2018	2,007	1,157	3,164
2019		778	778
2020		434	434
Thereafter		10,767	10,767
	$ 8,692	$ 18,586	$ 27,278

We perform an impairment assessment of our other intangible assets whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable. Our impairment assessments involve, among other valuation methods, the estimation of future cash flows and other methods of determining fair value. Estimating future cash flows and determining fair values is subject to judgment and often involves the use of significant estimates and assumptions. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including the uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors.

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9. DERIVATIVES

We utilize various designated and undesignated derivative financial instruments to reduce our exposure to movements in interest rates including interest rate swaps, interest rate lock commitments and forward sale commitments. We measure all derivatives at fair value on our consolidated balance sheet. In each reporting period, we record the derivative instruments in other assets or other liabilities depending on whether the derivatives are in an asset or liability position. For derivative instruments that are designated as hedging instruments, we record the effective portion of the changes in the fair value of the derivative in AOCI, net of tax, until earnings are affected by the variability of cash flows of the hedged transaction. We immediately recognize the portion of the gain or loss in the fair value of the derivative that represents hedge ineffectiveness in current period earnings. For derivative instruments that are not designated as hedging instruments, changes in the fair value of the derivative are included in current period earnings.

Interest Rate Lock and Forward Sale Commitments

We enter into interest rate lock commitments on certain mortgage loans that are intended to be sold. To manage interest rate risk on interest rate lock commitments, we also enter into forward loan sale commitments. The interest rate locks and forward loan sale commitments are accounted for as undesignated derivatives and are recorded at their respective fair values in other assets or other liabilities, with changes in fair value recorded in current period earnings. These instruments serve to reduce our exposure to movements in interest rates. At June 30, 2015, we were a party to interest rate lock and forward sale commitments on $34.0 million and $33.5 million of mortgage loans, respectively.

The following table presents the location of all assets and liabilities associated with our derivative instruments within the consolidated balance sheets:

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives: Fair Value at June 30, 2015	Asset Derivatives: Fair Value at December 31, 2014	Liability Derivatives: Fair Value at June 30, 2015	Liability Derivatives: Fair Value at December 31, 2014
		(Dollars in thousands)			
Interest rate contracts	Other assets / other liabilities	$ 906	$ 504	$ 256	$ 122

The following table presents the impact of derivative instruments and their location within the consolidated statements of income:

Derivatives Not in Cash Flow Hedging Relationship	Location of Gain (Loss) Recognized in Earnings on Derivatives	Amount of Gain (Loss) Recognized in Earnings on Derivatives (Dollars in thousands)
Three Months Ended June 30, 2015		
Interest rate contracts	Other operating income	$ (198)
Three Months Ended June 30, 2014		
Interest rate contracts	Other operating income	413

Six Months Ended June 30, 2015		
Interest rate contracts	Other operating income	268
Six Months Ended June 30, 2014		
Interest rate contracts	Other operating income	353

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10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The bank was a member of the Federal Home Loan Bank of Seattle until its merger with the Federal Home Loan Bank of Des Moines on June 1, 2015. We are now a member of the Federal Home Loan Bank of Des Moines (the FHLB) and maintained a $1.2 billion line of credit as of June 30, 2015. Short-term borrowings under this arrangement totaled $157.0 million at June 30, 2015, compared to $38.0 million at December 31, 2014. There were no long-term borrowings under this arrangement at June 30, 2015 and December 31, 2014. FHLB advances outstanding at June 30, 2015 were secured by unencumbered investment securities with a fair value of $0.7 million and certain real estate loans with a carrying value of $1.6 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At June 30, 2015, $1.0 billion was undrawn under this arrangement.

At June 30, 2015 and December 31, 2014, our bank had additional unused borrowings available at the Federal Reserve discount window of $27.5 million and $33.3 million, respectively. As of June 30, 2015 and December 31, 2014, certain commercial and commercial real estate loans with a carrying value totaling $54.3 million and $72.9 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

11. EQUITY

We have generated considerable tax benefits, including net operating loss carry-forwards and federal and state tax credits. Our use of the tax benefits in the future would be significantly limited if we experience an ownership change for U.S. federal income tax purposes. In general, an ownership change will occur if there is a cumulative increase in the Company s ownership by 5-percent shareholders (as defined under U.S. income tax laws) that exceeds 50 percentage points over a rolling three-year period.

On November 23, 2010, our Board of Directors declared a dividend of preferred share purchase rights (Rights) in respect to our common stock which were issued pursuant to a Tax Benefits Preservation Plan, dated as of November 23, 2010 (the Tax Benefits Preservation Plan), between the Company and Wells Fargo Bank, National Association, as rights agent. Each Right represents the right to purchase, upon the terms and subject to the conditions in the Plan, 1/10,000th of a share of our Junior Participating Preferred Stock, Series C, no par value, for $6.00, subject to adjustment. The Tax Benefits Preservation Plan is designed to reduce the likelihood that the Company will experience an ownership change by discouraging any person from becoming a beneficial owner of 4.99% or more of our common stock (a Threshold Holder). On January 29, 2014, our Board of Directors approved an amendment to the Tax Benefits Preservation Plan to extend it for up to an additional two years (until February 18, 2016).

To further protect our tax benefits, on January 26, 2011, our Board of Directors approved an amendment to our restated articles of incorporation to restrict transfers of our stock if the effect of an attempted transfer would cause the transferee to become a Threshold Holder or to cause the beneficial ownership of a Threshold Holder to increase (the Protective Charter Amendment). At our annual meeting of shareholders on April 27, 2011, we proposed the amendment which shareholders approved. On January 29, 2014, our Board of Directors approved an amendment to the Protective Charter Amendment to extend it for up to an additional two years (until May 2, 2016). Our shareholders approved the Protective Charter Amendment on April 25, 2014. There is no guarantee, however, that the Tax Benefits Preservation Plan or the Protective Charter Amendment will prevent the Company from experiencing an ownership change.

As a Hawaii state-chartered bank, Central Pacific Bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law (Statutory Retained Earnings), which differs from GAAP retained earnings. As of June 30, 2015, the bank had Statutory Retained Earnings of $58.7 million.

Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures.

On February 21, 2014, we announced a tender offer to purchase for cash up to $68.8 million in value of shares of our common stock at a price not greater than $21.00 nor less than $18.50 per share (the Tender Offer).

The Tender Offer expired on March 21, 2014 and 3,369,850 shares of our common stock were properly tendered and not withdrawn at or below the purchase price of $20.20 per share (Purchase Price). In addition, 167,572 shares were tendered through notice of guaranteed delivery at or below the Purchase Price. Based on these results, we accepted for purchase 3,405,888 shares, at the Purchase Price for a total cost of $68.8 million, excluding fees and expenses related to the Tender Offer. The Tender Offer closed on March 28, 2014.

Due to the oversubscription of the Tender Offer, we accepted for purchase on a pro rata basis approximately 96.6% of the shares properly tendered and not properly withdrawn at or below the Purchase Price by each tendering shareholder, except for tenders of odd lots, which were accepted in full, and except for certain conditional tenders automatically regarded as withdrawn pursuant to the terms of the Tender Offer.

On February 20, 2014, we also entered into repurchase agreements (the Repurchase Agreements) with each of Carlyle Financial Services Harbor, L.P. (Carlyle) and ACMO-CPF, L.L.C. (Anchorage and together with Carlyle, the Lead Investors), each of whom was the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate at that time) of our common stock, pursuant to which we agreed to purchase up to $28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price of the Tender Offer (the Private Repurchases) (or an aggregate of $56.2 million of shares). Conditions to the Private Repurchases were satisfied and we purchased 1,391,089 shares from each of Carlyle and Anchorage at the Purchase Price for a total cost of $56.2 million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer.

The completion of the Tender Offer and the Private Repurchases resulted in the aggregate repurchase by us of 6,188,066 shares totaling $125 million, or 14.7% of our issued and outstanding shares of our common stock prior to the completion of the Tender Offer and the Private Repurchases. Upon completion of the Tender Offer and Private Repurchases, we had approximately 35.9 million shares outstanding.

On March 26, 2015, the Company, Carlyle and Anchorage (together the Selling Shareholders), and Citigroup Global Markets, Inc. (the Underwriter) entered into a secondary offering underwriting agreement (the March 2015 Underwriting Agreement) pursuant to which the Selling Shareholders agreed to each sell 3,802,694 shares for a total of 7,605,388 shares of CPF common stock, no par value per share, to the Underwriter at a price of $23.01 per common share for a total of approximately $175 million. In connection with the March 2015 Underwriting Agreement, the Company repurchased 3,259,452 shares of its common stock from the Underwriter at a price of $23.01 per share for an aggregate cost of approximately $75 million, excluding fees and expenses. The transactions were consummated on April 1, 2015. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company. The Company incurred $0.4 million in costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders. In addition, the Company incurred $0.2 million in costs recorded in equity related to the repurchase of its common stock from the Underwriter.

On June 4, 2015, the Company, the Selling Shareholders, and the Underwriter entered into another secondary offering underwriting agreement (the June 2015 Underwriting Agreement) pursuant to which the Selling Shareholders agreed to each sell 1,500,000 shares for a total of 3,000,000 shares of CPF common stock, no par value per share, to the Underwriter at a price of $22.15 per common share for a total of approximately $66.5 million. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company. In the second quarter of 2015, the Company accrued $0.3 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

In January 2008, our Board of Directors authorized the repurchase and retirement of up to 60,000 shares of the Company s common stock (the 2008 Repurchase Plan). Repurchases under the 2008 Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. A total of 55,000 shares remained available for repurchase under the 2008 Repurchase Plan at December 31, 2013. In January 2014, the 2008 Repurchase Plan and the remaining 55,000 shares were superseded by the Tender Offer and Repurchase Agreements with our Lead Investors.

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On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company s outstanding common stock (the CPF Repurchase Plan). Repurchases under the CPF Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions. In 2014, 857,554 shares of common stock, at a cost of $16.5 million, were repurchased under this program.

In January 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by $25.0 million. In March 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by an additional $75.0 million in connection with the March 2015 Underwriting Agreement. In the six months ended June 30, 2015, an additional 3,950,781 shares of common stock, at a cost of $89.3 million, excluding fees and expenses, were repurchased under this program. A total of $24.2 million remained available for repurchase under the CPF Repurchase Plan at June 30, 2015.

12. SHARE-BASED COMPENSATION

Restricted Stock Awards and Units

The table below presents the activity of restricted stock awards and units for the six months ended June 30, 2015:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2015	715,460	$ 15.77
Changes during the period:		
Granted	137,878	18.67
Vested	(336,417)	15.19
Forfeited	(44,210)	16.25
Nonvested at June 30, 2015	472,711	16.98

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13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the components of other comprehensive income for the three and six months ended June 30, 2015 and 2014, by component:

	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Three Months Ended June 30, 2015			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (20,752)	$ (8,259)	$ (12,493)
Less: Reclassification adjustment for losses realized in net income	1,866	743	1,123
Net unrealized losses on investment securities	(18,886)	(7,516)	(11,370)
Defined benefit plans:			
Amortization of net actuarial losses	421	170	251
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	430	174	256
Other comprehensive loss	$ (18,456)	$ (7,342)	$ (11,114)
Three Months Ended June 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 17,251	$ 6,797	$ 10,454
Less: Reclassification adjustment for losses realized in net income	(240)	(96)	(144)
Net unrealized gains on investment securities	17,011	6,701	10,310
Defined benefit plans:			
Amortization of net actuarial losses	305	120	185
Amortization of net transition obligation	4	2	2
Amortization of prior service cost	5	2	3
Defined benefit plans, net	314	124	190
Other comprehensive income	$ 17,325	$ 6,825	$ 10,500

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	Before Tax	Tax Effect (Dollars in thousands)	Net of Tax
Six Months Ended June 30, 2015			
Net unrealized losses on investment securities:			
Net unrealized losses arising during the period	$ (9,276)	$ (3,692)	$ (5,584)
Less: Reclassification adjustment for losses realized in net income	1,866	743	1,123
Net unrealized losses on investment securities	(7,410)	(2,949)	(4,461)
Defined benefit plans:			
Amortization of net actuarial losses	841	335	506
Amortization of net transition obligation	8	4	4
Amortization of prior service cost	10	4	6
Defined benefit plans, net	859	343	516
Other comprehensive loss	$ (6,551)	$ (2,606)	$ (3,945)
Six Months Ended June 30, 2014			
Net unrealized gains on investment securities:			
Net unrealized gains arising during the period	$ 33,195	$ 13,165	$ 20,030
Less: Reclassification adjustment for losses realized in net income	(240)	(96)	(144)
Net unrealized gains on investment securities	32,955	13,069	19,886
Defined benefit plans:			
Amortization of net actuarial losses	610	243	367
Amortization of net transition obligation	8	4	4
Amortization of prior service cost	10	4	6
Defined benefit plans, net	628	251	377
Other comprehensive income	$ 33,583	$ 13,320	$ 20,263

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The following table presents the changes in each component of AOCI, net of tax, for the three and six months ended June 30, 2015 and 2014:

	Investment Securities	Defined Benefit Plans	Accumulated Other Comprehensive Income (Loss)
		(Dollars in thousands)	
Three Months Ended June 30, 2015			
Balance at beginning of period	$ 20,495	$ (10,167)	$ 10,328
Other comprehensive loss before reclassifications	(12,493)		(12,493)
Amounts reclassified from AOCI	1,123	256	1,379
Total other comprehensive income (loss)	(11,370)	256	(11,114)
Balance at end of period	$ 9,125	$ (9,911)	$ (786)
Three Months Ended June 30, 2014			
Balance at beginning of period	$ 451	$ (6,533)	$ (6,082)
Other comprehensive income before reclassifications	10,454		10,454
Amounts reclassified from AOCI	(144)	190	46
Total other comprehensive income	10,310	190	10,500
Balance at end of period	$ 10,761	$ (6,343)	$ 4,418
Six Months Ended June 30, 2015			
Balance at beginning of period	$ 13,586	$ (10,427)	$ 3,159
Other comprehensive loss before reclassifications	(5,584)		(5,584)
Amounts reclassified from AOCI	1,123	516	1,639
Total other comprehensive income (loss)	(4,461)	516	(3,945)
Balance at end of period	$ 9,125	$ (9,911)	$ (786)
Six Months Ended June 30, 2014			
Balance at beginning of period	$ (9,125)	$ (6,720)	$ (15,845)
Other comprehensive income before reclassifications	20,030		20,030
Amounts reclassified from AOCI	(144)	377	233
Total other comprehensive income	19,886	377	20,263
Balance at end of period	$ 10,761	$ (6,343)	$ 4,418

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The following table presents the amounts reclassified out of each component of AOCI for the three and six months ended June 30, 2015 and 2014:

Details about AOCI Components	**Amount Reclassified from AOCI Three Months Ended June 30, 2015**	**2014**	**Affected Line Item in the Statement Where Net Income is Presented**
	(Dollars in thousands)		
Sale of investment securities available for sale	$ (1,866)	$ 240	Investment securities gains (losses)
	743	(96)	Tax benefit
	$ (1,123)	$ 144	Net of tax
Amortization of defined benefit plan items			
Net actuarial losses	$ (421)	$ (305)	(1)
Net transition obligation	(4)	(4)	(1)
Prior service cost	(5)	(5)	(1)
	(430)	(314)	Total before tax
	174	124	Tax benefit
	$ (256)	$ (190)	Net of tax
Total reclassifications for the period	$ (1,379)	$ (46)	Net of tax
	Six Months Ended June 30, 2015	**2014**	
Sale of investment securities available for sale	$ (1,866)	$ 240	Investment securities gains (losses)
	743	(96)	Tax benefit
	$ (1,123)	$ 144	Net of tax
Amortization of defined benefit plan items			
Net actuarial losses	$ (841)	$ (610)	(1)
Net transition obligation	(8)	(8)	(1)
Prior service cost	(10)	(10)	(1)
	(859)	(628)	Total before tax
	343	251	Tax benefit
	$ (516)	$ (377)	Net of tax
Total reclassifications for the period	$ (1,639)	$ (233)	Net of tax

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 14 for additional details).

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14. PENSION AND SUPPLEMENTAL EXECUTIVE RETIREMENT PLANS

Central Pacific Bank has a defined benefit retirement plan (the Pension Plan) which covers certain eligible employees. The plan was curtailed effective December 31, 2002, and accordingly, plan benefits were fixed as of that date. The following table sets forth the components of net periodic benefit cost for the Pension Plan:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)		(Dollars in thousands)	
Interest cost	$ 348	$ 366	$ 696	$ 732
Expected return on assets	(472)	(524)	(944)	(1,048)
Amortization of net actuarial losses	393	304	786	608
Net periodic cost	$ 269	$ 146	$ 538	$ 292

Our bank also established Supplemental Executive Retirement Plans (SERPs), which provide certain (current and former) officers of our bank with supplemental retirement benefits. The following table sets forth the components of net periodic benefit cost for the SERPs:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)			
Interest cost	$ 110	$ 113	$ 220	$ 226
Amortization of net transition obligation	4	4	8	8
Amortization of prior service cost	5	5	10	10
Amortization of net actuarial losses	28	1	55	2
Net periodic cost	$ 147	$ 123	$ 293	$ 246

15. INCOME AND FRANCHISE TAXES

In assessing the need for a valuation allowance on our deferred tax assets (DTA), management considers whether it is more likely than not that some portion or all of the DTA will not be realized. The ultimate realization of DTA is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income and tax-planning strategies in making this assessment.

At June 30, 2015, the Company had net operating loss carryforwards for Federal income tax purposes of $97.3 million, that are available to offset future Federal taxable income, if any, through 2030. At June 30, 2015, the Company had net operating loss carryforwards for Hawaii and

California state income tax purposes of $56.9 million and $39.3 million, respectively, which are available to offset future state taxable income, if any, through 2030. In addition, the Company has state tax credit carryforwards of $14.9 million that do not expire, and federal tax credit carryforwards of $17.3 million, of which $14.0 million will expire within 20 years, and $3.3 million will not expire.

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Income tax expense for the periods presented differed from the expected tax expense (computed by applying the U.S. Federal corporate tax rate of 35% to income (loss) before income taxes) for the following reasons:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)			
Computed expected tax expense	$ 7,097	$ 4,560	$ 12,751	$ 9,924
Increase (decrease) in taxes resulting from:				
Tax-exempt interest	(357)	(354)	(709)	(705)
Other tax-exempt income	(161)	(267)	(397)	(502)
Income tax credits	(313)	(675)	(640)	(870)
State income taxes, net of Federal income tax effect, excluding impact of deferred tax valuation allowance	1,526	573	2,265	1,173
Change in the beginning-of-the-year balance of the valuation allowance for deferred tax assets allocated to income tax expense	1	(3)	19	132
Other	151	43	414	243
Total	$ 7,944	$ 3,877	$ 13,703	$ 9,395

16. EARNINGS PER SHARE

The following table presents the information used to compute basic and diluted earnings per common share for the periods indicated:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(In thousands, except per share data)			
Net income	$ 12,335	$ 9,150	$ 22,730	$ 18,958
Weighted average shares outstanding - basic	31,525	36,117	33,167	39,000
Dilutive effect of employee stock options and awards	428	539	421	405
Weighted average shares outstanding - diluted	31,953	36,656	33,588	39,405
Basic earnings per share	$ 0.39	$ 0.25	$ 0.69	$ 0.49
Diluted earnings per share	$ 0.39	$ 0.25	$ 0.68	$ 0.48

A total of 12,996 potentially dilutive securities have been excluded from the dilutive share calculation for the three and six months ended June 30, 2015, as their effect was antidilutive, compared to 22,864 for the three and six months ended June 30, 2014.

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17. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Disclosures about Fair Value of Financial Instruments

Fair value estimates, methods and assumptions are set forth below for our financial instruments.

Short-Term Financial Instruments

The carrying values of short-term financial instruments are deemed to approximate fair values. Such instruments are considered readily convertible to cash and include cash and due from banks, interest-bearing deposits in other banks, accrued interest receivable, short-term borrowings, and accrued interest payable.

Investment Securities

The fair value of investment securities is based on market price quotations received from securities dealers. Where quoted market prices are not available, fair values are based on quoted market prices of comparable securities.

Loans

Fair values of loans are estimated based on discounted cash flows of portfolios of loans with similar financial characteristics including the type of loan, interest terms and repayment history. Fair values are calculated by discounting scheduled cash flows through estimated maturities using estimated market discount rates. Estimated market discount rates are reflective of credit and interest rate risks inherent in the Company s various loan types and are derived from available market information, as well as specific borrower information. The fair value of loans are not based on the notion of exit price.

Loans Held for Sale

The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of Hawaii and U.S. Mainland construction and commercial real estate loans net of applicable selling costs on our consolidated balance sheets.

Other Interest Earning Assets

The equity investment in common stock of the FHLB, which is redeemable for cash at par value, is reported at its par value.

Deposit Liabilities

The fair values of deposits with no stated maturity, such as noninterest-bearing demand deposits and interest-bearing demand and savings accounts, are equal to the amount payable on demand. The fair value of time deposits is estimated using discounted cash flow analyses. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

Long-Term Debt

The fair value of our long-term debt is estimated by discounting scheduled cash flows over the contractual borrowing period at the estimated market rate for similar borrowing arrangements.

Off-Balance Sheet Financial Instruments

The fair values of off-balance sheet financial instruments are estimated based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties, current settlement values or quoted market prices of comparable instruments.

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For derivative financial instruments, the fair values are based upon current settlement values, if available. If there are no relevant comparables, fair values are based on pricing models using current assumptions for interest rate swaps and options.

Limitations

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular financial instrument. Because no market exists for a significant portion of our financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of future business and the value of assets and liabilities that are not considered financial instruments. For example, significant assets and liabilities that are not considered financial assets or liabilities include deferred tax assets, premises and equipment and intangible assets. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in many of the estimates.

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	Carrying Amount	Estimated Fair Value	Fair Value Measurement Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)			
June 30, 2015					
Financial assets					
Cash and due from banks	$ 66,715	$ 66,715	$ 66,715	$	$
Interest-bearing deposits in other banks	14,775	14,775	14,775		
Investment securities	1,537,090	1,533,462	918	1,519,916	12,628
Loans held for sale	22,917	22,917			22,917
Net loans and leases	2,939,131	2,885,053		49,433	2,835,620
Accrued interest receivable	14,021	14,021	14,021		
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	1,080,428	1,080,428	1,080,428		
Interest-bearing demand and savings deposits	2,069,031	2,069,031	2,069,031		
Time deposits	1,032,863	1,034,242			1,034,242
Short-term debt	157,000	157,000		157,000	
Long-term debt	92,785	69,035		69,035	
Accrued interest payable (included in other liabilities)	927	927	927		
Off-balance sheet financial instruments					
Commitments to extend credit	740,072	3,700		3,700	
Standby letters of credit and financial guarantees written	16,061	120		120	
Interest rate options	34,007	360		360	
Forward interest rate contracts	33,531	290		290	
December 31, 2014					
Financial assets					
Cash and due from banks	$ 72,316	$ 72,316	$ 72,316	$	$
Interest-bearing deposits in other banks	13,691	13,691	13,691		
Investment securities	1,467,305	1,464,615	877	1,450,643	13,095
Loans held for sale	9,683	9,683			9,683
Net loans and leases	2,858,158	2,752,420		70,743	2,681,677
Accrued interest receivable	13,584	13,584	13,584		
Financial liabilities					
Deposits:					
Noninterest-bearing deposits	1,034,146	1,034,146	1,034,146		
Interest-bearing demand and savings deposits	2,030,870	2,030,870	2,030,870		
Time deposits	1,045,284	1,047,322			1,047,322
Short-term debt	38,000	38,000		38,000	
Long-term debt	92,785	42,454		42,454	
Accrued interest payable (included in other liabilities)	1,018	1,018	1,018		
Off-balance sheet financial instruments					
Commitments to extend credit	720,255	3,601		3,601	
	18,797	141		141	

Standby letters of credit and financial guarantees written			
Interest rate options	44,266	444	444
Forward interest rate contracts	23,919	(62)	(62)

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Fair Value Measurements

We group our financial assets and liabilities at fair value into three levels based on the markets in which the financial assets and liabilities are traded and the reliability of the assumptions used to determine fair value as follows:

- Level 1 Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities traded in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques that requires the use of significant judgment or estimation.

We base our fair values on the price that we would expect to receive if an asset were sold or pay to transfer a liability in an orderly transaction between market participants at the measurement date. We also maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements.

We use fair value measurements to record adjustments to certain financial assets and liabilities and to determine fair value disclosures. Available for sale securities and derivatives are recorded at fair value on a recurring basis. From time to time, we may be required to record other financial assets at fair value on a nonrecurring basis such as loans held for sale, impaired loans and mortgage servicing rights. These nonrecurring fair value adjustments typically involve application of the lower of cost or fair value accounting or write-downs of individual assets.

There were no transfers of financial assets and liabilities between Level 1 and Level 2 of the fair value hierarchy during the three and six months ended June 30, 2015.

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The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014:

		Fair Value at Reporting Date Using		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(Dollars in thousands)		
June 30, 2015				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 188,257	$	$ 175,629	$ 12,628
Corporate securities	99,562		99,562	
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	778,067		778,067	
Residential - Non-government agencies	70,357		70,357	
Commerical - Non-government agencies	137,151		137,151	
Other	918	918		
Total available for sale securities	1,274,312	918	1,260,766	12,628
Derivatives - Interest rate contracts	650		650	
Total	$ 1,274,962	$ 918	$ 1,261,416	$ 12,628
December 31, 2014				
Available for sale securities:				
Debt securities:				
States and political subdivisions	$ 191,645	$	$ 178,550	$ 13,095
Corporate securities	100,604		100,604	
Mortgage-backed securities:				
Residential - U.S. Government sponsored entities	751,558		751,558	
Residential - Non-government agencies	46,693		46,693	
Commerical - Non-government agencies	137,641		137,641	
Other	877	877		
Total available for sale securities	1,229,018	877	1,215,046	13,095
Derivatives - Interest rate contracts	382		382	
Total	$ 1,229,400	$ 877	$ 1,215,428	$ 13,095

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For the six months ended June 30, 2015 and 2014, the changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows:

		Available for Sale States and Political Subdivisions Debt Securities (Dollars in thousands)
Balance at December 31, 2014	$	13,095
Principal payments received		(812)
Unrealized net gain included in other comprehensive income		345
Balance at June 30, 2015	$	12,628
Balance at December 31, 2013	$	10,518
Principal payments received		(139)
Unrealized net gain included in other comprehensive income		76
Purchases		2,269
Balance at June 30, 2014	$	12,724

Within the state and political subdivisions debt securities category, the Company holds four mortgage revenue bonds issued by the City & County of Honolulu with an aggregate fair value of $12.6 million and $12.7 million at June 30, 2015 and June 30, 2014, respectively. The Company estimates the fair value of its mortgage revenue bonds by using a discounted cash flow model to calculate the present value of estimated future principal and interest payments.

The significant unobservable input used in the fair value measurement of the Company s mortgage revenue bonds is the weighted average discount rate. As of June 30, 2015, the weighted average discount rate utilized was 4.17%, which was derived by incorporating a credit spread over the FHLB Fixed-Rate Advance curve. Significant increases (decreases) in the weighted average discount rate could result in a significantly lower (higher) fair value measurement.

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For assets measured at fair value on a nonrecurring basis that were recorded at fair value on our balance sheet at June 30, 2015 and December 31, 2014, the following table provides the level of valuation assumptions used to determine the respective fair values:

	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
June 30, 2015				
Impaired loans (1)	$ 49,433	$	$ 49,433	$
Other real estate (2)	5,278		5,278	
December 31, 2014				
Impaired loans (1)	$ 70,743	$	$ 70,743	$
Other real estate (2)	2,948		2,948	

(1) Represents carrying value and related write-downs of loans for which adjustments are based on agreed upon purchase prices for the loans or the appraised value of the collateral.

(2) Represents other real estate that is carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral.

18. SEGMENT INFORMATION

We have the following three reportable segments: Banking Operations, Treasury and All Others. These segments are consistent with our internal functional reporting lines and are managed separately because each unit has different target markets, technological requirements, marketing strategies and specialized skills.

The Banking Operations segment includes construction and real estate development lending, commercial lending, residential mortgage lending, indirect auto lending, trust services, retail brokerage services and our retail branch offices, which provide a full range of deposit and loan products, as well as various other banking services. The Treasury segment is responsible for managing the Company s investment securities portfolio and wholesale funding activities. The All Others segment consists of all activities not captured by the Banking Operations or Treasury segments described above and includes activities such as electronic banking, data processing and management of bank owned properties.

The accounting policies of the segments are consistent with the Company s accounting policies that are described in Note 1 to the consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC. The majority of the Company s net income is derived from net interest income. Accordingly, management focuses primarily on net interest income, rather than gross interest income and expense amounts, in evaluating segment profitability.

Intersegment net interest income (expense) was allocated to each segment based upon a funds transfer pricing process that assigns costs of funds to assets and earnings credits to liabilities based on market interest rates that reflect interest rate sensitivity and maturity characteristics. All administrative and overhead expenses are allocated to the segments at cost. Cash, investment securities, loans and leases and their related balances are allocated to the segment responsible for acquisition and maintenance of those assets. Segment assets also include all premises and equipment used directly in segment operations.

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Segment profits and assets are provided in the following table for the periods indicated.

	Banking Operations	Treasury	All Others	Total
	(Dollars in thousands)			
Three Months Ended June 30, 2015:				
Net interest income	$ 28,837	$ 8,457	$	$ 37,294
Intersegment net interest income (expense)	11,348	(8,067)	(3,281)	
Credit for loan and lease losses	7,319			7,319
Other operating income	6,008	(1,322)	3,438	8,124
Other operating expense	(15,354)	(493)	(16,611)	(32,458)
Administrative and overhead expense allocation	(15,937)	(266)	16,203	
Income tax (expense) benefit	(7,776)	591	(759)	(7,944)
Net income (loss)	$ 14,445	$ (1,100)	$ (1,010)	$ 12,335
Three Months Ended June 30, 2014:				
Net interest income	$ 27,356	$ 8,550	$	$ 35,906
Intersegment net interest income (expense)	6,149	(7,107)	958	
Provision for loan and lease losses	(1,995)			(1,995)
Other operating income	6,750	1,092	4,162	12,004
Other operating expense	(14,372)	(538)	(17,978)	(32,888)
Administrative and overhead expense allocation	(13,734)	(267)	14,001	
Income tax expense	(3,076)	(490)	(311)	(3,877)
Net income	$ 7,078	$ 1,240	$ 832	$ 9,150
Six Months Ended June 30, 2015:				
Net interest income	$ 56,691	$ 16,838	$	$ 73,529
Intersegment net interest income (expense)	21,650	(16,765)	(4,885)	
Credit for loan and lease losses	10,066			10,066
Other operating income	12,454	(295)	7,155	19,314
Other operating expense	(30,178)	(971)	(35,327)	(66,476)
Administrative and overhead expense allocation	(28,041)	(554)	28,595	
Income tax (expense) benefit	(14,924)	611	610	(13,703)
Net income (loss)	$ 27,718	$ (1,136)	$ (3,852)	$ 22,730
Six Months Ended June 30, 2014:				
Net interest income	$ 53,543	$ 18,159	$	$ 71,702
Intersegment net interest income (expense)	12,156	(13,719)	1,563	
Provision for loan and lease losses	(679)			(679)
Other operating income	12,399	1,837	7,912	22,148
Other operating expense	(29,690)	(1,089)	(34,039)	(64,818)
Administrative and overhead expense allocation	(27,538)	(539)	28,077	
Income tax expense	(6,690)	(1,541)	(1,164)	(9,395)
Net income	$ 13,501	$ 3,108	$ 2,349	$ 18,958
At June 30, 2015:				

Investment securities	$	$ 1,537,090	$	$ 1,537,090
Loans and leases (including loans held for sale)	3,028,972			3,028,972
Other	92,461	226,214	83,114	401,789
Total assets	$ 3,121,433	$ 1,763,304	$ 83,114	$ 4,967,851
At December 31, 2014:				
Investment securities	$	$ 1,467,305	$	$ 1,467,305
Loans and leases (including loans held for sale)	2,941,881			2,941,881
Other	111,071	248,455	84,275	443,801
Total assets	$ 3,052,952	$ 1,715,760	$ 84,275	$ 4,852,987

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19. LEGAL PROCEEDINGS

We are involved in legal actions arising in the ordinary course of business. Management, after consultation with our legal counsel, believes the ultimate disposition of those matters will not have a material adverse effect on our consolidated financial statements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Central Pacific Financial Corp. (CPF) is a Hawaii corporation and a bank holding company. Our principal business is to serve as a holding company for our bank subsidiary, Central Pacific Bank. We refer to Central Pacific Bank herein as our bank or the bank, and when we say the Company, we, us or our, we mean the holding company on a consolidated basis with the bank and our other consolidated subsidiaries.

Central Pacific Bank is a full-service community bank with 36 branches and 110 ATMs located throughout the state of Hawaii. The bank offers a broad range of products and services including accepting time and demand deposits and originating loans, including commercial loans, construction loans, commercial and residential mortgage loans, and consumer loans.

Following our successful capital raises in 2011, we have accomplished a number of key performance objectives through June 30, 2015:

- In 2013, our Board of Directors and management, in consultation with our regulators, reinstated and declared quarterly cash dividends on the Company s outstanding common stock. On April 22, 2015, the Company declared a quarterly cash dividend of $0.12 per share. The dividend was paid on June 15, 2015 to shareholders of record at the close of business on May 29, 2015.

- On March 28, 2014, we completed a tender offer to purchase 3,405,888 shares of common stock at a purchase price of $20.20 per share for a total cost of $68.8 million, excluding fees and expenses. On April 7, 2014, we also completed repurchase agreements with each of our two largest shareholders to privately purchase an additional 1,391,089 shares of common stock at a purchase price of $20.20 per share from each shareholder for a total cost of $56.2 million, excluding fees and expenses.

- On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company s outstanding common stock. In 2014, 857,554 shares of common stock, at a cost of $16.5 million, were repurchased under this program. In January 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by $25.0 million. In March 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by an additional $75.0 million in connection with the transactions contemplated by the March 2015 Underwriting Agreement as described below. In the six months ended June 30, 2015, an additional 3,950,781 shares of common stock, at a total cost of $89.3 million, excluding fees and expenses, were repurchased under this program.

- On March 26, 2015, the Company, Carlyle and Anchorage (together the Selling Shareholders), and Citigroup Global Markets, Inc. (the Underwriter) entered into a secondary offering underwriting agreement (the March 2015 Underwriting Agreement) pursuant to which the Selling Shareholders agreed to each sell 3,802,694 shares for a total of 7,605,388 shares of CPF common stock, no par value per share, to the Underwriter at a price of $23.01 per common share for a total of approximately $175 million. In connection with the March 2015 Underwriting Agreement, the Company repurchased 3,259,452 shares of its common stock from the Underwriter at a price of $23.01 per share for an aggregate cost of approximately $75 million, excluding fees and expenses. On April 1, 2015, the transactions were consummated. The Company did not receive any of the proceeds from the sale of these shares and no shares were sold by the Company. The Company incurred $0.4 million of costs recorded in other expenses related to the secondary offering by the Selling Shareholders. In addition, the Company incurred $0.2 million in costs recorded in equity related to the repurchase of its common stock from the Underwriter.

- On June 4, 2015, the Company, the Selling Shareholders, and the Underwriter entered into another secondary offering underwriting agreement (the June 2015 Underwriting Agreement) pursuant to which the Selling Shareholders agreed to each sell 1,500,000 shares for a total of 3,000,000 shares of CPF common stock, no par value per share, to the Underwriter at a price of $22.15 per common share, for a total of approximately $66.5 million. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were purchased or sold by the Company. In the second quarter of 2015, the Company accrued $0.3 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

- We have continued to maintain a strong capital position with tier 1 risk-based capital, total risk-based capital, leverage capital, and the new common equity tier 1 capital ratios as of June 30, 2015 of 14.47%, 15.73%, 10.44%, and 11.91%, respectively. Our tier 1 risk-based capital, total risk-based capital, and leverage capital ratios were 16.97%, 18.24%, and 12.03%, respectively, as of December 31, 2014. Our capital ratios exceed the levels required for a well-capitalized regulatory designation under Basel III.

- We reported four consecutive profitable years from 2011 through 2014. In the six months ended June 30, 2015 we reported net income of $22.7 million.

- We have continued to grow our loan and lease portfolio. Loans and leases, net of deferred income/costs, totaled $3.01 billion at June 30, 2015 and increased by $73.9 million, or 2.5% from $2.93 billion at December 31, 2014.

- We maintained an allowance for loan and lease losses as a percentage of total loans and leases of 2.23% at June 30, 2015, compared to 2.53% at December 31, 2014. In addition, we maintained an allowance for loan and lease losses as a percentage of nonperforming assets of 208.43% at June 30, 2015, compared to 176.14% at December 31, 2014.

On June 4, 2015, we announced changes to our executive leadership team. Effective July 1, 2015, Ms. A. Catherine Ngo, our previous President and Chief Operating Officer, became the President and Chief Executive Officer of our holding company and bank, and Mr. David S. Morimoto, our previous Senior Vice President and Treasurer, became the Executive Vice President, Chief Financial Officer and Treasurer of our holding company and bank. Mr. John C. Dean, our former Chairman and Chief Executive Officer, will remain with us in the new role of Executive Chair, and Mr. Denis Isono, our former Chief Financial Officer, will also remain with us in the role of Executive Vice President, Corporate Services. In addition, Ms. Ngo and Mr. Lance Mizumoto, our President and Chief Banking Officer, were appointed as directors of the boards of both our holding company and bank.

We also remain focused on lowering our efficiency ratio and growing market share within our core Hawaii market. In connection with improving our efficiency ratio, we have completed several initiatives, including (i) outsourcing the data center and hardware for our core information technology system and items processing function to Fiserv, which is our existing core software application provider; and (ii) consolidating our two Waikiki branches into one. Additionally, we have begun designing, developing, and implementing new data warehouse and customer relationship management programs.

Basis of Presentation

Management s discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements under Part I, Item 1. Financial Statements (Unaudited). The following discussion should also be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2014 filed with the U.S. Securities and Exchange Commission (the SEC) on February 27, 2015.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires that management make certain judgments and use certain estimates and assumptions that affect amounts reported and disclosures made. Accounting estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimate are reasonably likely to occur from period to period and would materially impact our consolidated financial statements as of or for the periods presented. Management has discussed the development and selection of the critical accounting estimates noted below with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed the accompanying disclosures.

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Allowance for Loan and Lease Losses

The allowance for loan and lease losses (the Allowance) is management s estimate of credit losses inherent in our loan and lease portfolio at the balance sheet date. We maintain our Allowance at an amount we expect to be sufficient to absorb probable losses inherent in our loan and lease portfolio based on a projection of probable net loan charge-offs. At June 30, 2015, we had an Allowance of $66.9 million, compared to $74.0 million at December 31, 2014.

The Company s approach to developing the Allowance has three basic elements. These elements include specific reserves for individually impaired loans, a general allowance for loans other than those analyzed as individually impaired, and an unallocated reserve. These three methods are explained below:

Specific Reserve

Individually impaired loans in all loan categories are evaluated using one of three valuation methods as prescribed under ASC 310-10; Fair Value of Collateral, Observable Market Price, or Cash Flow. A loan is generally evaluated for impairment on an individual basis if it meets one or more of the following characteristics: risk-rated as substandard, doubtful or loss, loans on nonaccrual status, troubled debt restructures, or any loan deemed prudent by management to so analyze. If the valuation of the impaired loan is less than the recorded investment in the loan, the deficiency will be charged off against the Allowance or, alternatively, a specific reserve will be established and included in the overall Allowance balance. As of June 30, 2015, this specific reserve represented $0.1 million of the total Allowance, compared to $1.5 million at December 31, 2014.

General Allowance

In determining the general allowance component of the Allowance, the Company utilizes a comprehensive approach to segment the loan portfolio into homogenous groups. Six criteria divide the Company s loan portfolio into 128 homogenous subsectors. First, loans are divided by general geographic region (U.S. Mainland and Hawaii). Second, loans are subdivided according to FDIC classification (Construction, Commercial Mortgage, Commercial, Financial and Agricultural, Leases, Residential Mortgage, Consumer). Third, loans within the Construction category are further subdivided by collateral type (Commercial and Residential). Fourth, loans within the Residential Mortgage category are further subdivided by ownership type (Investor-owned and Owner-occupied). Fifth, loans are subdivided by state or for some, by County (All Hawaii, Hawaii Island, Kauai, Maui, Oahu, Other Hawaii, All U.S. Mainland, Los Angeles/Orange County CA, Riverside/San Bernardino CA, Sacramento/Placer/El Dorado/Yolo CA, San Diego CA, Washington/Oregon, Other U.S. Mainland). Finally, loans are further subdivided by risk rating (Pass, Special Mention, Substandard, and Doubtful).

For the purpose of determining general allowance loss factors, loss experience is derived from charge-offs and recoveries. A charge-off occurs when the Company makes the determination that an amount of debt is deemed to be uncollectible. Loans are also charged off when it is probable that a loss has been incurred and it is possible to make a reasonable estimate of the loss. Charge-offs are classified into subsectors according to the underlying loan s primary geography, loan category, collateral type (if applicable), investment type (if applicable), state/county, and the risk rating of the loan one year prior to the charge-off. A recovery occurs when a loan that is classified as a bad debt was either partially or fully charged off and has been subsequently recovered. Recoveries are classified according to the subsector of the earliest associated charge-off of the loan within the selected look-back period. The cumulative charge-offs are determined by summing all subsector-specific charge-offs that occurred within the selected look-back period and the cumulative recoveries are determined by summing the subsector-specific recoveries for each subsector. Subsector losses are measured by subtracting each subsector s cumulative recoveries from their respective cumulative charge-offs. Subsector losses are then divided by the subsector loan balance averaged over the look-back period to determine each subsector s historical loss rate.

From 2010 through 2013, the calculation of subsector loss factors involved a look-back period of eight quarters (for loans secured by real estate by FDIC classifications) or four quarters (for all other loans). The Company s then rapidly evolving loss experience necessitated the use of shorter loss analysis periods in order to ensure that loss rates would be adequately responsive to changes in loss experience. During that period, the Company considered recent loss data to be more relevant to the current period under analysis and consistent with commentary provided by our primary banking regulator.

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As economic conditions continued to improve and stabilize through 2014, the Company experienced improving credit quality trends that contributed to consistent reductions to the Allowance. Given the diminishing loss rates, in the first quarter of 2014 the Company extended the look-back period for loans secured by real estate from 8 quarters to 17 quarters, with the intention of extending the look-back period each quarter thereafter to a total of 24 quarters or six years to incorporate broader loss experience through a more complete economic cycle. The Company believed this would also reduce the Company s reliance on proxy loss rates by capturing more of the Company s own historical loss experience in the extended look-back period. The Company also believes the longer look-back period is appropriate in light of the Company s limited loss experience throughout the recent economic recovery and stabilization. Additionally, as economic conditions have stabilized through 2014, the Company believes the lower loss rate volatility has diminished the need for shorter loss analysis periods that are more responsive to shifts in loss experience. The enhanced methodology does not incorporate data before 2010 due to the anomalous loss activity during that time period that may cause pre-2010 internal loss data to be an inappropriate representation of the current inherent risk in the Company s loan portfolio. In our revised approach, the losses during the six year look-back period are weighted to place more emphasis on recent loss experience.

Application of Proxies

The Company applies external proxies for minimum loss rates in those loan categories with no associated loss experience during the prescribed look-back period, including criticized credits. The Company believes the use of external proxies is a prudent approach versus using a zero loss factor for those loan categories that do not have loss experience in the look-back period. The external proxies used are based on four select credit loss rates tracked by Moody s Investor Service.

The following table describes the Moody s loss rate that is applied as a proxy to each loan category when no associated loss experience is registered in a subsector of the loan category over the relevant look-back period.

Loan Segment	**Proxy- Moody s Loss Rate**
Commercial, Financial and Agricultural	Maximum of Last 5 Yrs Annual Corporate Bond Loss Rate
Construction	Cumulative 2-Yr U.S. CMBS Loss Rate
Commercial Mortgage	Cumulative 2-Yr U.S. CMBS Loss Rate
Residential Mortgage	Cumulative 2-Yr U.S. RMBS/HEL Loss Rate
Consumer	1-Yr U.S. ABS excl. HEL Loss Rate
Leases	Maximum of Last 5 Yrs Annual Corporate Bond Loss Rate

In those loan categories described in the table above, specific loss rate proxies are applied based on the equivalence of respective risk ratings between the proxy rate and the loan subsector. Based on the conformity of risk characterizations, B-rated proxy rates are matched to substandard loan segments (risk rating 6), Ba-rated proxy rates are matched to special mention loan segments (risk rating 5), and Aaa, Aa, A and Baa-rated proxy rates are matched to risk ratings strong quality, above average quality, average quality, and acceptable quality, respectively (risk ratings 1, 2, 3 and 4).

For pass rated loan segments with no associated loss experience during the respective prescribed look-back periods, the proxy loss rate is determined by weighting each proxy loss rate (ratings Aaa, Aa, A and Baa) by the loan balance in each equivalent risk rating (strong, above average, average and acceptable quality, respectively).

In assessing the appropriateness of Moody s proxy rates, the Company conducted a comprehensive review of other potential sources of proxy loss data, evaluated the qualitative and quantitative factors influencing the relevance and reliability of proxy data, and performed a correlation analysis to determine the co-dependency of historical loss ratios with Moody s loss rates. The analysis compared historical loss ratios in each loan category to the associated Moody s loss rates over ten years.

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An analysis of the correlation between historical loss ratios and Moody s loss rates revealed that the two metrics demonstrated a directionally consistent loss relationship in nearly every rating group and exhibited average to strong correlation across all rating groups in almost every segment. Given the results of the correlation analysis, the Company deemed application of these proxy loss rates to be reasonable and supportable.

Qualitative Adjustments

Our Allowance methodology uses qualitative adjustments for economic/market conditions and Company-specific conditions. The economic/market conditions factor is applied on a regional/geographic basis. The Company-specific condition factor is applied on a category basis. Two key indicators, personal income and unemployment, comprise the economic/market adjustment factor.

Personal income is analyzed by comparing average quarter-to-quarter percentage change trends reported by the U.S. Bureau of Economic Analysis. Specifically, the rolling four quarter average percentage change in personal income is calculated and compared to a baseline historical factor, calculated as the average quarter-to-quarter percentage change over the prior ten years. The difference between the current average change and the historical average change is utilized as the personal income component of the economic/market adjustment factor.

The second component of the economic/market factor, unemployment, is derived by comparing the current quarter unemployment rate, reported by the U.S. Bureau of Labor Statistics, to its ten year historical average. A constant scaling factor is applied to the difference between the current rate and the historical average in order to smooth significant period-to-period fluctuations. The result is utilized as the unemployment component of the economic factor. The personal income factor and unemployment factor are added together to determine each region s total economic/market adjustment factor.

The general allowance also incorporates qualitative adjustment factors that capture Company-specific conditions for which national/regional statistics are not available, or for which significant localized market specific events have not yet been captured within regional statistics or the Company s historical loss experience. Since we cannot predict with certainty the amount of loan and lease charge-offs that will be incurred and because the eventual level of loan and lease charge-offs are impacted by numerous conditions beyond our control, we use our historical loss experience adjusted for current conditions to determine both our Allowance and Provision.

In the first and second quarters of 2015, we increased a qualitative factor applied to our national syndicated loan portfolio in consideration of updated proxy information which became available in the first quarter of 2015 and better defined portfolio attributes during the second quarter of 2015. We continually monitor for updated and refined information sources which will enable us to enhance the quality of our Allowance methodology from time to time.

In addition, various regulatory agencies, as an integral part of their examination processes, periodically review our Allowance. The determination of the Allowance requires us to make estimates of losses that are highly uncertain and involves a high degree of judgment. Accordingly, actual results could differ from those estimates. Changes in the estimate of the Allowance and related Provision could materially affect our operating results.

The sum of each subsector s historical loss rate plus a region-specific economic/market qualitative adjustment and category-specific other qualitative adjustment, as discussed in the above *Application of Proxies* section, is then multiplied by the subsector s period-ending loan balance to determine each subsector s general allowance provision. The sum of the 128 subsector general allowance provisions represents the general allowance provision of the entire portfolio. As of June 30, 2015, this general allowance represented $63.4 million of the total Allowance, compared to $68.5 million at December 31, 2014.

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Unallocated Reserve

The Company maintains an unallocated Allowance amount to provide for other credit losses inherent in our loan and lease portfolio that may not have been contemplated in the credit loss factors. The unallocated reserve is a measure to address judgmental estimates that are inevitably imprecise and it reflects an adjustment to the Allowance that is not attributable to specific categories of the loan portfolio. The unallocated reserve is distinct from and not captured in the Company s qualitative adjustments in the general component of the Allowance. These qualitative adjustments only capture direct and specific risks to our portfolio, whereas the unallocated reserve is intended to capture broader national and global economic risks that could potentially have a ripple effect on our loan portfolio.

As of June 30, 2015 and December 31, 2014, an unallocated estimate of $3.5 million and $4.0 million, respectively, was based on the Company s recognition of domestic (U.S. mainland) and international events that pose heightened volatility in the isolated Hawaii market. Examples of such stressors are acts of terrorism, pandemic events, energy price volatility and Federal budget changes. Any of these in isolation or combination could have significant effects on two key drivers of the Hawaii economy: tourism and Federal spending. Recently in response to the Federal Budget Control Act, the Army is considering the reduction of up to approximately 20,000 soldiers in Hawaii, which would have a significant negative impact on Hawaii s economy, including the job the real estate markets.

Although the Company does not have direct exposure to the economic and political crises occurring internationally, the ripple effect of continuous uncertainty surrounding ultimate resolution, along with quantifiable measures once achieved, may result in increased risk to the Company from the standpoint of consequences to its customer base and impacts on the Hawaii tourism market.

In the second quarter of 2014, the Company adopted an enhancement which limits the unallocated component of the Allowance as a percentage of the then current general component of the Allowance, rounded upward to the nearest $500,000. This is derived by taking the historical average of the percentage of the unallocated component to the general component over the maximum look-back period prescribed in our methodology. The unallocated amount may be maintained at higher levels during times of economic stress conditions on a local or global basis.

Reserve for Unfunded Loan Commitments

Our process for determining the reserve for unfunded loan commitments is consistent with our process for determining the Allowance and is adjusted for estimated loan funding probabilities. The reserve for unfunded loan commitments is recorded separately through a valuation allowance included in other liabilities on our consolidated balance sheets. Credit losses for off-balance sheet credit exposures are deducted from the allowance for credit losses on off-balance sheet credit exposures in the period in which the liability is settled. The allowance for credit losses on off-balance sheet credit losses is established by a charge to other operating expense. As of June 30, 2015 and December 31, 2014, our reserve for unfunded loan commitments totaled $1.4 million and $1.7 million, respectively.

Loans Held for Sale

Loans held for sale consists of the following two types: (1) Hawaii residential mortgage loans that are originated with the intent to sell them in the secondary market and (2) non-residential loans both in Hawaii and the U.S. Mainland that were originated with the intent to be held in our portfolio but were subsequently transferred to the held for sale category. Hawaii residential mortgage loans classified as held for sale are carried at the lower of cost or fair value on an aggregate basis while the non-residential Hawaii and U.S. Mainland loans are recorded at the lower of cost or fair value on an individual basis.

When a non-residential loan is transferred to the held for sale category, the loan is recorded at the lower of cost or fair value. Any reduction in the loan s value is reflected as a write-down of the recorded investment resulting in a new cost basis, with a corresponding reduction in the Allowance. In subsequent periods, if the fair value of a loan classified as held for sale is less than its cost basis, a valuation adjustment is recognized in our consolidated statement of income in other operating expense and the carrying value of the loan is adjusted accordingly. The valuation adjustment may be recovered in the event that the fair value increases, which is also recognized in our consolidated statement of income in other operating expense.

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The fair value of loans classified as held for sale are generally based upon quoted prices for similar assets in active markets, acceptance of firm offer letters with agreed upon purchase prices, discounted cash flow models that take into account market observable assumptions, or independent appraisals of the underlying collateral securing the loans. We report the fair values of the non-residential loans classified as held for sale net of applicable selling costs on our consolidated balance sheets. At June 30, 2015 and December 31, 2014, all of our loans held for sale were Hawaii residential mortgage loans.

Reserve for Residential Mortgage Loan Repurchase Losses

We sell residential mortgage loans on a whole-loan basis to government-sponsored entities (GSEs or Agencies) Fannie Mae and Freddie Mac and also to non-agency investors. These loan sales occur under industry standard contractual provisions that include various representations and warranties, which typically cover ownership of the loan, compliance with loan criteria set forth in the applicable agreement, validity of the lien securing the loan, and other similar matters. We may be required to repurchase certain loans sold with identified defects, indemnify the investor, or reimburse the investor for any credit losses incurred. We establish mortgage repurchase reserves related to various representations and warranties that reflect management s estimate for which we have a repurchase obligation. The reserves are established by a charge to other operating expense in our consolidated statements of operation. At June 30, 2015 and December 31, 2014, this reserve totaled $2.6 million and $2.7 million, respectively, and is included in other liabilities on our consolidated balance sheets.

The repurchase reserve is applicable to loans we originated and sold with representations and warranties, which is representative of the entire sold portfolio. Originations for agency and non-agency for vintages 2005 through June 30, 2015 were approximately $4.8 billion and $4.4 billion, respectively. Representations and warranties relating to borrower fraud generally are enforceable for the life of the loan, whereas early payment default clauses generally expire after 90 days, depending on the sales contract. We estimate that loans outstanding and sold that have early payment default clauses as of June 30, 2015 approximate $78.0 million.

The repurchase loss liability is estimated by origination year to capture certain characteristics of each vintage. To the extent that repurchase demands are made by investors, we may be able to successfully appeal such repurchase demands. However, our appeals success may be affected by the reasons for repurchase demands, the quality of the demands, and our appeals strategies. Repurchase and loss estimates are stratified by vintage, based on actual experience and certain assumptions relative to potential investor demand volume, appeals success rates, and losses recognized on successful repurchase demands.

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Loans repurchased and make-whole demands during the three and six months ended June 30, 2015 totaled approximately $1.0 million and $1.2 million, respectively. In 2012, additional reserves were established as an unallocated component in recognition of the emergence of make-whole demands. The establishment of an unallocated component considers anticipated future losses and our lack of historical experience with make-whole demands. Over recent periods, we have experienced stabilization in the number and dollar amount of make-whole demands. As we gain more historical experience, we anticipate adjustments to both the allocated and unallocated portions of the repurchase reserve. Repurchase activity by vintage and investor type are depicted in the table below.

Repurchase Demands, Appeals, Repurchased and Pending Resolution [1]

Six Months Ended June 30, 2015

	Government Sponsored Entities				Non-GSE Investors			
Vintage	**Repurchase Demands**	**Appealed**	**Repurchased**	**Pending Resolution**	**Repurchase Demands**	**Appealed**	**Repurchased**	**Pending Resolution**
2005 and prior					1		1	
2006					3	1	2	
2007					4	4		
2008								
2009	1	1						
2010								
2011								
2012								
2013	1		1					
2014	3		1	2				
2015	1			1				
Total	6	1	2	3	8	5	3	

[1] Based on repurchase requests received between January 1, 2015 and June 30, 2015.

The reserve for residential mortgage loan repurchase losses of $2.6 million at June 30, 2015 represents our best estimate of the probable loss that we may incur due to the representations and warranties in our loan sales contracts with investors. This represents a $0.1 million decrease from December 31, 2014. The table below shows changes in the repurchase losses liability for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
	(Dollars in thousands)			
Balance, beginning of period	$ 2,623	$ 3,076	$ 2,685	$ 2,949
Change in estimate	(32)	(147)	127	308
Utilizations			(221)	(328)
Balance, end of period	$ 2,591	$ 2,929	$ 2,591	$ 2,929

We believe that our capacity to estimate repurchase losses is improving as we record additional experience and could affect the proportion of allocated and unallocated reserves. Repurchase losses depend upon economic factors and other external conditions that may change over the life of the underlying loans. Additionally, lack of access to the servicing records of loans sold on a service released basis adds difficulty to the estimation process, thus requiring considerable management judgment. To the extent that future investor repurchase demand and appeals success differ from past experience, we could have increased demands and increased loss severities on repurchases, causing future changes to the repurchase reserve.

Other Intangible Assets

Other intangible assets include a core deposit premium and mortgage servicing rights.

Our core deposit premium is being amortized using the straight-line method over 14 years which approximates the estimated life of the purchased deposits. The carrying value of our core deposit premium is periodically evaluated to estimate the remaining periods of benefit. If these periods of benefit are determined to be less than the remaining amortizable life, an adjustment to reflect such shorter life will be made.

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We utilize the amortization method to measure our mortgage servicing rights. Under the amortization method, we amortize our mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as the result of new mortgage servicing rights is reported as gains on sales of loans. Amortization of the servicing rights is reported as amortization of other intangible assets in our consolidated statements of operations. Ancillary income is recorded in other income. Mortgage servicing rights are recorded when loans are sold to third-parties with servicing of those loans retained and we classify our entire mortgage servicing rights into one pool.

Initial fair value of the servicing right is calculated by a discounted cash flow model based on market value assumptions at the time of origination. We assess the servicing right for impairment using current market value assumptions at each reporting period. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates, costs to service and ancillary income. Variations in our assumptions could materially affect the estimated fair values. Changes to our assumptions are made when current trends and market data indicate that new trends have developed. Current market value assumptions based on loan product types (fixed rate, adjustable rate and balloon loans) include average discount rates and national prepayment speeds. Many of these assumptions are subjective and require a high level of management judgment.

Prepayment speeds may be affected by economic factors such as changes in home prices, market interest rates, the availability of alternative credit products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments, including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations. As market interest rates decline, prepayment speeds will generally increase as customers refinance existing mortgages under more favorable interest rate terms. As prepayment speeds increase, anticipated cash flows will generally decline resulting in a potential reduction, or impairment, to the fair value of the capitalized mortgage servicing rights. Alternatively, an increase in market interest rates may cause a decrease in prepayment speeds and therefore an increase in fair value of mortgage servicing rights.

The fair value of our mortgage servicing rights is validated by first ensuring the completeness and accuracy of the loan data used in the valuation analysis. Additionally, the critical assumptions which come from independent sources are reviewed and include comparing actual results to forecast assumptions or evaluating the reasonableness of market assumptions in relation to the values and trends of assumptions used by peer banks. The validation process also includes reviewing key metrics such as the fair value as a percentage of the total unpaid principal balance of the mortgages serviced, and the resulting percentage as a multiple of the net servicing fee. These key metrics are tracked to ensure the trends are reasonable, and are periodically compared to peer banks.

We perform an impairment assessment of our other intangible assets whenever events or changes in circumstance indicate that the carrying value of those assets may not be recoverable. Our impairment assessments involve, among other valuation methods, the estimation of future cash flows and other methods of determining fair value. Estimating future cash flows and determining fair values is subject to judgments and often involves the use of significant estimates and assumptions. The variability of the factors we use to perform our impairment tests depend on a number of conditions, including the uncertainty about future events and cash flows. All such factors are interdependent and, therefore, do not change in isolation. Accordingly, our accounting estimates may materially change from period to period due to changing market factors.

Deferred Tax Assets and Tax Contingencies

Deferred tax assets (DTAs) and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the DTAs will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income, if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our DTAs may not be realized, which would result in a charge to earnings. In the third quarter of 2009, we established a full valuation allowance against our net DTAs. See - Results of Operations - Income Taxes below. The quarter ended March 31, 2013 marked our ninth consecutive quarter of profitability. Based on this earnings performance trend, improvements in our financial condition, asset quality and capital ratios and the expectation of continued profitability, the

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Company determined that it was more likely than not that our net DTA would be realized. As a result, in the first quarter of 2013, the Company reversed a significant portion of the valuation allowance. As of June 30, 2015, given our eighteen consecutive quarters of profitability, significant improvement in our asset quality, and well capitalized position, we continue to believe that it is more likely than not that our net DTA will be realized.

Income tax contingency reserves are established for potential tax liabilities related to uncertain tax positions. Tax benefits are recognized when we determine that it is more likely than not that such benefits will be realized. Where uncertainty exists due to the complexity of income tax statutes and where the potential tax amounts are significant, we generally seek independent tax opinions to support our positions. If our evaluation of the likelihood of the realization of benefits is inaccurate, we could incur additional income tax and interest expense that would adversely impact earnings, or we could receive tax benefits greater than anticipated which would positively impact earnings.

Impact of Recently Issued Accounting Pronouncements on Future Filings

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. ASU 2014-09 is effective for the Company s reporting period beginning on January 1, 2018. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance target Could Be Achieved after the Requisite Service Period.* ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for the Company s reporting period beginning on January 1, 2016. As of June 30, 2015 and December 31, 2014, the Company did not have any share-based payment awards that included performance targets that could be achieved after the requisite service period. As such, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis. ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the amendments:1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; 2) eliminate the presumption that a general partner should consolidate a limited partnership; 3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; 4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. All legal entities are subject to reevaluation under the revised consolidation model. ASU 2015-02 is effective for the Company s annual reporting period beginning on January 1, 2016. We are currently evaluating the potential impact the new standard will have on our consolidated financial statements.

Financial Summary

Net income for the three months ended June 30, 2015 was $12.3 million, or $0.39 per diluted share, compared to $9.2 million, or $0.25 per diluted share for the three months ended June 30, 2014. Net income for the six months ended June 30, 2015 was $22.7 million, or $0.68 per diluted share, compared to $19.0 million, or $0.48 per diluted share for the six months ended June 30, 2014.

Total credit costs, which includes the Provision, gains on sales of foreclosed assets, write-downs of foreclosed assets, and the change in the reserve for unfunded commitments, amounted to a credit of $7.4 million and $10.2 million in the three and six months ended June 30, 2015, compared to a charge of $1.5 million in the three months ended June 30, 2014 and a credit of $0.6 million in the six months ended June 30, 2014.

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The following table presents annualized returns on average assets, average shareholders equity, average tangible equity and basic and diluted earnings per share for the periods indicated. Average tangible equity is calculated as average shareholders equity less average intangible assets, which excludes mortgage servicing rights. Average intangible assets were $9.1 million and $9.4 million for the three and six months ended June 30, 2015, respectively, compared to $11.8 million and $12.1 million for the comparable prior year periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Return on average assets	1.00%	0.77%	0.92%	0.80%
Return on average shareholders equity	9.93	6.49	8.54	6.11
Return on average tangible equity	10.11	6.63	8.70	6.23
Basic earnings per common share	$ 0.39	$ 0.25	$ 0.69	$ 0.49
Diluted earnings per common share	0.39	0.25	0.68	0.48

Material Trends

While there remains continued uncertainty in the global macroeconomic environment, the U.S. economy has continued to stabilize following the economic downturn caused by disruptions in the financial system beginning in 2007.

Despite this stabilization, underutilization of labor forces, low level of inflation as a result of declining commodity prices, weakness in business investment and manufacturing, and increased concerns over Greece and China have added to the uncertainty surrounding a sustained economic recovery. In addition, the stock market s inability to sustain gains this year continues to hold back further progress.

The majority of our operations are concentrated in the state of Hawaii. As a result, our performance is significantly influenced by conditions in the banking industry, macroeconomic conditions and the real estate markets in Hawaii. A favorable business environment is generally characterized by expanding gross state product, low unemployment and rising personal income; while an unfavorable business environment is characterized by the reverse.

In its first quarter forecast, the Hawaii Department of Business Economic Development & Tourism (DBEDT) projects stable economic growth will continue in 2015 and beyond. DBEDT projects real personal income and real gross state product to grow by 2.5% in 2015.

The Department of Labor and Industrial Relations reported that Hawaii s seasonally adjusted annual unemployment rate improved to 4.0% in June 2015, compared to 4.4% in June 2014 and 4.1% from January through May 2015. In addition, Hawaii s unemployment rate in June 2015 remained below the national seasonally adjusted unemployment rate of 5.3%. DBEDT projects Hawaii s seasonally adjusted annual unemployment rate to be at 3.9% in 2015 while the national unemployment rate is projected to be at 5.4% in 2015.

While the labor market condition continues to improve, visitor arrivals and spending have stabilized. According to the Hawaii Tourism Authority (HTA), 3.5 million visitors visited the state in the first five months of 2015. This was an increase of 4.1% from the number of visitor arrivals in the first five months of 2014. Total spending by visitors, increased to $6.21 billion in the first five months of 2015, an increase of $121.2 million, or 2.0%, from the first five months of 2014. According to DBEDT, total visitor arrivals and visitor spending are expected to increase 2.5% and 2.0% in 2015, respectively.

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Historically, real estate lending has been a primary focus for us, including construction, residential mortgage and commercial mortgage loans. As a result, we are dependent on the strength of Hawaii s real estate market. According to the Honolulu Board of Realtors, Oahu unit sales volume increased by 3.4% for single-family homes and 3.3% for condominiums for the six months ended June 30, 2015 compared to the same time period last year. The median sales price for single-family homes on Oahu for the six months ended June 30, 2015 was $685,000, representing an increase of 2.3% from $669,500 in the same prior year period. The median sales price for condominiums on Oahu for the six months ended June 30, 2015 was $358,500, representing an increase of 2.4% from $350,000 in the same prior year period. We believe the Hawaii real estate market will continue to show improvements during the remainder of 2015, however, there can be no assurance that this will occur.

As we have seen in the past, our operating results are significantly impacted by: (i) the economy in Hawaii, and to a significantly lesser extent, California, and (ii) the composition of our loan portfolio. Loan demand, deposit growth, Provision, asset quality, noninterest income and noninterest expense are all affected by changes in economic conditions. If the residential and commercial real estate markets we have exposure to deteriorate as they did in 2008 through 2010, our results of operations would be negatively impacted.

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Results of Operations

Net Interest Income

Net interest income, when expressed as a percentage of average interest earning assets, is referred to as net interest margin. Interest income, which includes loan fees and resultant yield information, is expressed on a taxable equivalent basis using an assumed income tax rate of 35%. A comparison of net interest income on a taxable equivalent basis (net interest income) for the three and six months ended June 30, 2015 and 2014 is set forth below.

	Three Months Ended June 30,					
	2015			2014		
	Average Balance	Average Yield/ Rate	Amount of Interest	Average Balance	Average Yield/ Rate	Amount of Interest
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	$ 17,160	0.24%	$ 11	$ 12,756	0.25%	$ 8
Taxable investment securities (1)	1,360,101	2.44	8,285	1,360,329	2.49	8,477
Tax-exempt investment securities (1)	176,086	3.53	1,554	178,609	3.45	1,539
Loans and leases, including loans held for sale (2)	2,981,184	3.97	29,572	2,762,963	4.07	28,040
Federal Home Loan Bank stock	32,046	0.23	18	45,472	0.10	11
Total interest earning assets	4,566,577	3.46	39,440	4,360,129	3.50	38,075
Nonearning assets	381,225			376,689		
Total assets	$ 4,947,802			$ 4,736,818		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 812,339	0.05%	$ 99	$ 743,544	0.05%	$ 91
Savings and money market deposits	1,257,940	0.07	225	1,219,159	0.07	223
Time deposits under $100,000	230,425	0.37	212	256,971	0.41	261
Time deposits $100,000 and over	846,966	0.16	337	821,701	0.18	360
Short-term borrowings	116,945	0.28	79	75,885	0.29	55
Long-term debt	92,785	2.81	650	92,792	2.77	640
Total interest-bearing liabilities	3,357,400	0.19	1,602	3,210,052	0.20	1,630
Noninterest-bearing deposits	1,051,088			913,082		
Other liabilities	42,433			49,788		
Total liabilities	4,450,921			4,172,922		
Shareholders equity	496,881			563,895		
Non-controlling interests				1		
Total equity	496,881			563,896		
Total liabilities and equity	$ 4,947,802			$ 4,736,818		
Net interest income			$ 37,838			$ 36,445
Net interest margin		3.32%			3.35%	

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	Six Months Ended June 30,					
	2015			2014		
	Average Balance	Average Yield/ Rate	Amount of Interest	Average Balance	Average Yield/ Rate	Amount of Interest
	(Dollars in thousands)					
Assets						
Interest earning assets:						
Interest-bearing deposits in other banks	$ 17,601	0.25%	$ 22	$ 12,173	0.25%	$ 15
Taxable investment securities (1)	1,335,642	2.46	16,444	1,433,863	2.51	17,974
Tax-exempt investment securities (1)	176,841	3.49	3,089	178,308	3.44	3,068
Loans and leases, including loans held for sale (2)	2,968,425	3.94	58,174	2,714,662	4.07	54,923
Federal Home Loan Bank stock	37,895	0.15	29	45,771	0.10	23
Total interest earning assets	4,536,404	3.44	77,758	4,384,777	3.48	76,003
Nonearning assets	382,519			374,435		
Total assets	$ 4,918,923			$ 4,759,212		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 800,096	0.05%	$ 194	$ 739,659	0.05%	$ 181
Savings and money market deposits	1,253,428	0.07	448	1,218,626	0.07	447
Time deposits under $100,000	233,813	0.37	434	260,207	0.41	529
Time deposits $100,000 and over	841,629	0.16	663	831,096	0.18	722
Short-term borrowings	90,235	0.27	122	50,729	0.29	72
Long-term debt	92,785	2.80	1,287	92,794	2.77	1,276
Total interest-bearing liabilities	3,311,986	0.19	3,148	3,193,111	0.20	3,227
Noninterest-bearing deposits	1,032,268			899,401		
Other liabilities	42,430			46,154		
Total liabilities	4,386,684			4,138,666		
Shareholders equity	532,239			620,516		
Non-controlling interests				30		
Total equity	532,239			620,546		
Total liabilities and equity	$ 4,918,923			$ 4,759,212		
Net interest income			$ 74,610			$ 72,776
Net interest margin		3.30%			3.33%	

(1) At amortized cost.

(2) Includes nonaccrual loans.

Net interest income (expressed on a taxable-equivalent basis) was $37.8 million for the second quarter of 2015, representing an increase of 3.8% from $36.4 million in the same prior year period. The current quarter increase was primarily attributable to a significant increase in average loans and leases balances as we continue to redeploy excess liquidity into higher yielding assets. Offsetting this increase were declines in average yields earned on our loans and leases and taxable investment securities of 10 basis points (bp) and 5 bp, respectively.

Average yields earned on our interest-earning assets during the second quarter of 2015 declined by 4 bp from the same prior year period. Average rates paid on our interest-bearing liabilities declined by 1 bp in the second quarter of 2015 from the same prior year period.

For the first half of 2015, net interest income (expressed on a taxable-equivalent basis) was $74.6 million, representing an increase of 2.5% from $72.8 million in the same prior year period. The increase in the first half of 2015 compared to the same prior year period was primarily attributable to a significant increase in average loans and leases balances. Offsetting this increase was a significant decrease in average taxable investment securities balances and declines in average yields earned on our loans and leases and taxable investment securities of 13 bp and 5 bp, respectively.

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Average yields earned on our interest-earning assets during the first half of 2015 declined by 4 bp from the same prior year period. Average rates paid on our interest-bearing liabilities declined by 1 bp in the first half of 2015 from the same prior year period.

Interest Income

Taxable-equivalent interest income was $39.4 million for the second quarter of 2015, representing an increase of 3.6% from $38.1 million in the second quarter of 2014. The increase was primarily attributable to a significant increase in average loans and leases, partially offset by a decrease in average yields earned on our loans and leases and taxable investment securities. Average loans and leases increased by $218.2 million compared to the second quarter of 2014, accounting for approximately $2.2 million of the current quarter s increase in interest income. Average yields earned on loans and leases, however, decreased by 10 bp in the current quarter, lowering interest income by approximately $0.7 million. In addition, average yields earned on taxable investment securities decreased by 5 bp, resulting in a decrease in interest income of $0.2 million.

For the first half of 2015, taxable-equivalent interest income was $77.8 million, representing an increase of 2.3% from $76.0 million in the first half of 2014. The increase was primarily attributable to a significant increase in average loans and leases, partially offset by a significant decrease in average taxable investment securities and decreases in average yields earned on our loans and leases and taxable investment securities. Average loans and leases increased by $253.8 million compared to the first half of 2014, accounting for approximately $5.2 million of the current year s increase in interest income. Average taxable investment securities, however, decreased by $98.2 million, resulting in a decrease in interest income of $1.2 million. In addition, average yields earned on loans and leases and taxable investment securities, decreased by 13 bp and 5 bp, respectively, in the first half of 2015, lowering interest income by approximately $1.8 million and $0.4 million, respectively.

Interest Expense

Interest expense for the second quarter of 2015 was $1.6 million, representing a decrease of 1.7% from the second quarter of 2014. The decrease was primarily attributable to the 2 bp and 4 bp declines in average rates paid on our time deposits greater than and less than $100,000, respectively, offset by an increase in average short-term borrowings of $41.1 million.

For the first half of 2015, interest expense was $3.1 million, representing a decrease of 2.4% from $3.2 million in the first half of 2014. The decrease was primarily attributable to the 2 bp and 4 bp declines in average rates paid on our time deposits greater than and less than $100,000, respectively, and a decrease in average time deposits less than $100,000 of $26.4 million. These decreases were partially offset by an increase in average short-term borrowings of $39.5 million.

Net Interest Margin

Our net interest margin was 3.32% for the second quarter of 2015, compared to 3.35% for the second quarter of 2014 and reflects declines of 10 bp and 5 bp in average yields earned on loans and leases and taxable investment securities, respectively.

For the first half of 2015, our net interest margin was 3.30%, compared to 3.33% for the first half of 2014 and reflects declines of 13 bp and 5 bp in average yields earned on loans and leases and taxable investment securities, respectively.

The contraction in our net interest margin in the three and six months ended June 30, 3015 from the same prior year periods is attributable to the prevailing low interest rate environment. The historically low interest rate environment that we continue to operate in is the result of the target Fed Funds rate of 0% to 0.25% initially set by the Federal Reserve in the fourth quarter of 2008 and other economic policies implemented by the FRB, which continued through the first half of 2015. We continue to expect the target Fed Funds rate to remain low throughout 2015, as longer-term inflation expectations have remained stable.

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Provision for Loan and Lease Losses

Our Provision was a credit of $7.3 million during the second quarter of 2015 compared to an expense of $2.0 million in the comparable prior year period. Our net recoveries were $2.8 million during the second quarter of 2015 compared to net charge-offs of $1.6 million in the second quarter of 2014.

Our Provision was a credit of $10.1 million during the first half of 2015 compared to an expense of $0.7 million in the comparable prior year period. Our net recoveries were $3.0 million during the first half of 2015 compared to net charge-offs of $0.9 million in the first half of 2014.

The credit to the provision for loan and lease losses in the second quarter and first half of 2015 was primarily attributable to improving trends in credit quality. Nonperforming assets as of June 30, 2015 decreased by $8.7 million and $9.9 million from March 31, 2015 and December 31, 2014 respectively. Additionally, we had net recoveries of $2.8 million and $3.0 million in the three and six months ended June 30, 2015 respectively.

Other Operating Income

The following table sets forth components of other operating income for the periods indicated:

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	Three Months Ended				Six Months Ended			
	June 30, 2015	June 30, 2014	Dollar Change	Percent Change	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
				(Dollars in thousands)				
Service charges on deposit accounts	$ 1,915	$ 1,989	$ (74)	-3.7%	$ 3,883	$ 3,982	$ (99)	-2.5%
Loan servicing fees	1,427	1,448	(21)	-1.5%	2,850	2,892	(42)	-1.5%
Other service charges and fees	2,781	3,083	(302)	-9.8%	5,886	6,026	(140)	-2.3%
Income from fiduciary activities	830	828	2	0.2%	1,664	1,890	(226)	-12.0%
Equity in earnings of unconsolidated subsidiaries	229	359	(130)	-36.2%	325	411	(86)	-20.9%
Fees on foreign exchange	98	119	(21)	-17.6%	226	233	(7)	-3.0%
Investment securities gains	(1,866)	240	(2,106)	-877.5%	(1,866)	240	(2,106)	-877.5%
Income from bank-owned life insurance	461	766	(305)	-39.8%	1,135	1,436	(301)	-21.0%
Loan placement fees	225	178	47	26.4%	372	321	51	15.9%
Net gain on sales of residential loans	1,630	1,227	403	32.8%	3,224	2,466	758	30.7%
Net gain on sales of foreclosed assets	94	582	(488)	-83.8%	127	744	(617)	-82.9%
Other:								
Income recovered on nonaccrual loans previously charged-off	209	526	(317)	-60.3%	428	639	(211)	-33.0%
Other recoveries	15	15		0.0%	289	39	250	641.0%
Unrealized gains (losses) on loans-held-for-sale and interest rate locks	(198)	413	(611)	-147.9%	268	353	(85)	-24.1%
Commissions on sale of checks	82	84	(2)	-2.4%	160	170	(10)	-5.9%
Other	192	147	45	30.6%	343	306	37	12.1%
Total other operating income	$ 8,124	$ 12,004	$ (3,880)	-32.3%	$ 19,314	$ 22,148	$ (2,834)	-12.8%

Total other operating income of $8.1 million for the second quarter of 2015 decreased by $3.9 million, or 32.3%, from the comparable prior year period. The decrease from the year-ago quarter was primarily due to higher investment securities losses of $2.1 million, higher unrealized losses on loans held for sale and interest rate locks of $0.6 million, and lower net gains on sales of foreclosed assets of $0.5 million, partially offset by higher net gains on sales of residential mortgage loans of $0.4 million.

For the first half of 2015, total other operating income of $19.3 million decreased by $2.8 million, or 12.8%, from the comparable prior year period. The decrease from the first half of 2014 was primarily due to higher investment securities losses of $2.1 million and lower net gains on sales of foreclosed assets of $0.6 million, partially offset by higher net gains on sales of residential mortgage loans of $0.8 million.

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Other Operating Expense

The following table sets forth components of other operating expense for the periods indicated:

	Three Months Ended				Six Months Ended			
	June 30, 2015	June 30, 2014	Dollar Change	Percent Change	June 30, 2015	June 30, 2014	Dollar Change	Percent Change
	(Dollars in thousands)							
Salaries and employee benefits	$ 15,176	$ 16,550	$ (1,374)	-8.3%	$ 32,341	$ 33,984	$ (1,643)	-4.8%
Net occupancy	3,403	3,734	(331)	-8.9%	6,904	7,324	(420)	-5.7%
Equipment	933	945	(12)	-1.3%	1,842	1,741	101	5.8%
Amortization of other intangible assets	1,559	1,318	241	18.3%	3,664	2,558	1,106	43.2%
Communication expense	942	874	68	7.8%	1,766	1,768	(2)	-0.1%
Legal and professional services	1,642	2,228	(586)	-26.3%	3,861	4,040	(179)	-4.4%
Computer software expense	2,382	1,575	807	51.2%	4,478	2,933	1,545	52.7%
Advertising expense	449	678	(229)	-33.8%	1,084	1,364	(280)	-20.5%
Foreclosed asset expense	257	(17)	274	-1611.8%	329	88	241	273.9%
Other:								
Charitable contributions	2,138	110	2,028	1843.6%	2,277	262	2,015	769.1%
FDIC insurance assessment	701	728	(27)	-3.7%	1,399	1,402	(3)	-0.2%
Miscellaneous loan expenses	434	272	162	59.6%	709	493	216	43.8%
ATM and debit card expenses	180	464	(284)	-61.2%	766	913	(147)	-16.1%
Amortization of investments in low-income housing tax credit partnerships	274	351	(77)	-21.9%	562	758	(196)	-25.9%
Armored car expenses	195	214	(19)	-8.9%	429	440	(11)	-2.5%
Entertainment and promotions	266	215	51	23.7%	463	432	31	7.2%
Stationery and supplies	219	261	(42)	-16.1%	415	539	(124)	-23.0%
Directors fees and expenses	214	462	(248)	-53.7%	405	571	(166)	-29.1%
Provision (credit) for residential mortgage loan repurchase losses	(32)	(147)	115	-78.2%	127	308	(181)	-58.8%
Increase (decrease) to the reserve for unfunded commitments	(272)	81	(353)	-435.8%	(303)	(669)	366	-54.7%
Other	1,398	1,992	(594)	-29.8%	2,958	3,569	(611)	-17.1%
Total other operating expense	$ 32,458	$ 32,888	$ (430)	-1.3%	$ 66,476	$ 64,818	$ 1,658	2.6%

Total other operating expense for the second quarter of 2015 was $32.5 million and decreased by $0.4 million, or 1.3%, from $32.9 million in the comparable prior year period. The decrease from the year-ago quarter was primarily attributable to lower salaries and employee benefits of $1.4 million, lower legal and professional services of $0.6 million, lower reserve for unfunded commitments of $0.4 million, lower net occupancy costs of $0.3 million and lower ATM and debit card expenses of $0.3 million. These decreases were partially offset by higher charitable contributions of $2.0 million and higher computer software expense of $0.8 million.

For the first half of 2015, total other operating expense was $66.5 million and increased by $1.7 million, or 2.6%, from $64.8 million in the comparable prior year period. The increase from the first half of 2014 was primarily attributable to higher charitable contributions of $2.0 million, higher computer software expense of $1.5 million, and higher amortization of other intangible assets of $1.1 million. These increases were partially offset by lower salaries and employee benefits of $1.6 million, lower net occupancy costs of $0.4 million and lower advertising expense of $0.3 million.

The higher charitable contributions in the three and six months ended June 30, 2015 was primarily attributable to a $2.0 million contribution to the Central Pacific Bank Foundation. The lower salaries and employee benefits in the three and six months ended June 30, 2015 was primarily attributable to a $2.4 million one-time reversal of an accrual for a former executive officer s retirement benefits which will not be paid.

Income Taxes

In the second quarter of 2015, the Company recorded income tax expense of $7.9 million compared to $3.9 million in the same prior year period. The effective tax rate for the second quarter of 2015 was 39.17% compared to 29.76% in the second quarter of 2014.

For the first half of 2015, the Company recorded income tax expense of $13.7 million compared to $9.4 million in the same prior year period. The effective tax rate for the first half of 2015 was 37.61% compared to 33.14% in the first half of 2014.

Income tax expense and the effective tax rate increased in the three and six months ended June 30, 2015 due to an increase in operating income. Additionally, income tax expense and the effective tax rate in the three and six months ended June 30, 2015 was impacted by $0.6 million in additional state income tax expense resulting from the reduction in deferred tax liabilities related to the redemption of Federal Home Loan Bank of Des Moines membership stock in June 2015. Income tax expense and the effective tax rate in the three and six months ended June 30, 2014 was impacted by income tax benefit and credit true-up adjustments totaling $0.7 million.

The remaining valuation allowance on our net DTA totaled $2.8 million at June 30, 2015 and December 31, 2014. Net of this valuation allowance, the Company s net DTA totaled $94.2 million at June 30, 2015 compared to a net DTA of $104.4 million as of December 31, 2014, and is included in other assets on our consolidated balance sheets.

Financial Condition

Total assets at June 30, 2015 of $4.97 billion increased by $114.9 million from $4.85 billion at December 31, 2014.

Investment Securities

Investment securities of $1.54 billion at June 30, 2015 increased by $69.8 million, or 4.8%, from December 31, 2014. In the second quarter of 2015, $119.4 million in available-for-sale securities were sold as part of an investment portfolio repositioning designed to improve profitability. Investment securities sold in the second quarter had a weighted average life of 4.4 years, average yield of 1.35% and resulted in a loss of $1.9 million. Proceeds from the sale were immediately reinvested back into the investment portfolio, purchasing $120.6 million in mortgage-backed securities with a weighted average life of 7.6 years and an average yield of 2.71%.

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Loans and Leases

Loans and leases, net of deferred income/costs, of $3.01 billion at June 30, 2015 increased by $73.9 million, or 2.5%, from December 31, 2014. The increase was due to an increase in the residential mortgage, commercial, financial and agricultural, and consumer loan portfolios of $69.6 million, $35.8 million, and $8.0 million, respectively, partially offset by a decrease in the construction loan, commercial mortgage loan, and leases portfolios of $31.0 million, $8.1 million, and $0.6 million, respectively. The net increase in the portfolio is partially offset by the transfer of six portfolio loans with a carrying value of $1.6 million to other real estate and two portfolio loans to a single borrower with a carrying value of $6.6 million to the held-for-sale category, as well as loan charge-offs totaling $8.1 million in the six months ended June 30, 2015.

Nonperforming Assets, Accruing Loans Delinquent for 90 Days or More, Restructured Loans Still Accruing Interest

The following table sets forth nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest as of the dates indicated.

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	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Nonperforming Assets		
Nonaccrual loans (including loans held for sale):		
Commercial, financial and agricultural	$ 3,175	$ 13,007
Real estate:		
Construction	133	310
Mortgage-residential	10,032	13,048
Mortgage-commercial	13,490	12,722
Total nonaccrual loans	26,830	39,087
Other real estate:		
Real estate:		
Construction		747
Mortgage - residential	2,433	2,201
Mortgage - commercial	2,845	
Other real estate	5,278	2,948
Total nonperforming assets	32,108	42,035
Accruing loans delinquent for 90 days or more:		
Consumer	45	77
Total accruing loans delinquent for 90 days or more	45	77
Restructured loans still accruing interest:		
Commercial, financial and agricultural	339	361
Real estate:		
Construction	839	892
Mortgage-residential	16,428	17,845
Mortgage-commercial	1,360	10,405
Total restructured loans still accruing interest	18,966	29,503
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	$ 51,119	$ 71,615
Total nonaccrual loans as a percentage of loans and leases	0.89%	1.33%
Total nonperforming assets as a percentage of loans and leases and other real estate	1.07%	1.43%
Total nonperforming assets and accruing loans delinquent for 90 days or more as a percentage of loans and leases and other real estate	1.07%	1.43%
Total nonperforming assets, accruing loans delinquent for 90 days or more, and restructured loans still accruing interest as a percentage of loans and leases and other real estate	1.70%	2.44%
Year-to-date changes in nonperforming assets:		
Balance at December 31, 2014	$ 42,035	
Additions	8,190	
Reductions:		
Payments	(5,123)	
Return to accrual status	(471)	
Sales of nonperforming assets	(9,229)	
Charge-offs and/or valuation adjustments	(3,294)	
Total reductions	(18,117)	
Balance at June 30, 2015	$ 32,108	

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Nonperforming assets, which includes nonaccrual loans and leases and other real estate, totaled $32.1 million at June 30, 2015, compared to $42.0 million at December 31, 2014. There were no nonperforming loans classified as held for sale at June 30, 2015 and December 31, 2014. The decrease in nonperforming assets from December 31, 2014 was attributable to $5.1 million in repayments, $9.2 million in sales of nonperforming assets, $3.3 million in net charge-offs of nonaccrual loans and valuation adjustments of other real estate, and $0.5 million in loans restored to accrual status, partially offset by $8.2 million in gross additions.

Net changes to nonperforming assets by category included net decreases in U.S. Mainland commercial, financial and agricultural assets of $10.1 million, Hawaii residential mortgage assets of $2.8 million, U.S. Mainland commercial mortgage assets of $1.6 million, and Hawaii construction assets of $0.9 million. These decreases were offset by net increases in Hawaii commercial mortgage assets of $5.2 million and Hawaii commercial, financial and agricultural assets of $0.3 million.

Troubled debt restructurings (TDRs) included in nonperforming assets at June 30, 2015 consisted of 30 Hawaii residential mortgage loans with a combined principal balance of $6.1 million, a Hawaii commercial mortgage loan of $1.0 million, two Hawaii commercial loans with a combined principal balance of $0.9 million, and a Hawaii construction loan of $34 thousand. Concessions made to the original contractual terms of these loans consisted primarily of the deferral of interest and/or principal payments due to deterioration in the borrowers financial condition. The principal balances on these TDRs had matured and/or were in default at the time of restructure and we have no commitments to lend additional funds to any of these borrowers. There were $19.0 million of TDRs still accruing interest at June 30, 2015, none of which were more than 90 days delinquent. At December 31, 2014, there were $29.5 million of TDRs still accruing interest, none of which were more than 90 days delinquent.

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Allowance for Loan and Lease Losses

The following table sets forth certain information with respect to the Allowance as of the dates and for the periods indicated:

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(Dollars in thousands)			
Allowance for loan and lease losses:				
Balance at beginning of period	$ 71,433	$ 83,162	$ 74,040	$ 83,820
Provision (credit) for loan and lease losses	(7,319)	1,995	(10,066)	679
Charge-offs:				
Commercial, financial and agricultural	4,003	1,482	4,934	1,555
Real estate:				
Construction				
Mortgage-residential	50	102	64	139
Mortgage-commercial		1,041		1,041
Consumer	1,214	671	3,055	1,251
Leases				8
Total charge-offs	5,267	3,296	8,053	3,994
Recoveries:				
Commercial, financial and agricultural	3,279	546	3,873	1,152
Real estate:				
Construction	464	342	587	744
Mortgage-residential	397	529	1,885	623
Mortgage-commercial	3,562	13	3,575	26
Consumer	375	305	1,083	544
Leases		3		5
Total recoveries	8,077	1,738	11,003	3,094
Net charge-offs (recoveries)	(2,810)	1,558	(2,950)	900
Balance at end of period	$ 66,924	$ 83,599	$ 66,924	$ 83,599
Annualized ratio of net charge-offs (recoveries) to average loans and leases	(0.38)%	0.23%	(0.20)%	0.07%

Our Allowance at June 30, 2015 totaled $66.9 million compared to $74.0 million at December 31, 2014. The decrease in our Allowance during the six months ended June 30, 2015, was a direct result of a credit to the Provision of $10.1 million, offset by $3.0 million in net loan recoveries.

Our Allowance as a percentage of total loans and leases decreased from 2.53% at December 31, 2014 to 2.23% at June 30, 2015. Our Allowance as a percentage of nonperforming assets decreased from 176.14% at December 31, 2014 to 208.43% at June 30, 2015.

In accordance with GAAP, loans held for sale and other real estate assets are not included in our assessment of the Allowance.

Federal Home Loan Bank Stock

The bank was a member of the Federal Home Loan Bank of Seattle until its merger with the Federal Home Loan Bank of Des Moines on June 1, 2015. We are now a member of the Federal Home Loan Bank of Des Moines (the FHLB). FHLB membership stock of $12.1 million at June 30, 2015 decreased by $31.8 million, or 72.4%, from the FHLB membership stock balance at December 31, 2014. During the three and six months ended June 30, 2015, we received net proceeds of $31.3 million and $31.8 million, respectively, from redemptions of excess FHLB membership stock at par value of $100 per share.

Deposits

Total deposits of $4.18 billion at June 30, 2015 reflected an increase of $72.0 million, or 1.8%, from total deposits of $4.11 billion at December 31, 2014. The increase was primarily attributable to net increases in noninterest-bearing demand deposits, interest-bearing demand deposits, and savings and money market deposits of $46.3 million, $19.6 million, and $18.6 million, respectively, offset by a net decrease in time deposits of $12.4 million.

Core deposits, which we define as demand deposits, savings and money market deposits, and time deposits less than $100,000, totaled $3.38 billion at June 30, 2015 and increased by $70.5 million from December 31, 2014.

Capital Resources

In order to ensure adequate levels of capital, we conduct an ongoing assessment of projected sources and uses of capital in conjunction with an analysis of the size and quality of our assets, the level of risk and regulatory capital requirements. As part of this ongoing assessment, the Board of Directors reviews our capital position on an ongoing basis to ensure it is adequate, including, but not limited to, need for raising additional capital or returning capital to our shareholders, including the ability to declare cash dividends or repurchase our securities.

Common Stock

Shareholders equity totaled $488.8 million at June 30, 2015, compared to $568.0 million at December 31, 2014. The decrease in total shareholders equity was attributable to the repurchase of 3,950,781 shares of common stock, at a cost of $89.3 million, excluding fees and expenses, under our repurchase program, cash dividends paid of $8.0 million, and other comprehensive loss of $3.9 million, partially offset by net income of $22.7 million in the first half of 2015. During the first half of 2015, we repurchased approximately 11.2% of our common stock outstanding as of December 31, 2014.

Holding Company Capital Resources

As a Hawaii state-chartered bank, the bank may only pay dividends to the extent it has retained earnings as defined under Hawaii banking law (Statutory Retained Earnings), which differs from GAAP retained earnings. As of June 30, 2015, the bank had Statutory Retained Earnings of $58.7 million. On July 23, 2015, the Company s Board of Directors declared a cash dividend of $0.12 per share on the Company s outstanding common stock, payable on September 15, 2015 to shareholders of record at the close of business on August 31, 2015.

Dividends are payable at the discretion of the Board of Directors and there can be no assurance that the Board of Directors will continue to pay dividends at the same rate, or at all, in the future. Our ability to pay cash dividends to our shareholders is subject to restrictions under federal and Hawaii law, including restrictions imposed by the FRB and covenants set forth in various agreements we are a party to, including covenants set forth in our subordinated debentures.

On February 21, 2014, we announced a tender offer to purchase for cash up to $68.8 million in value of shares of our common stock at a price not greater than $21.00 nor less than $18.50 per share (the Tender Offer).

The Tender Offer expired on March 21, 2014 and 3,369,850 shares of our common stock were properly tendered and not withdrawn at or below the purchase price of $20.20 per share (Purchase Price). In addition, 167,572 shares were tendered through notice of guaranteed delivery at or below the Purchase Price. Based on these results, we accepted for purchase 3,405,888 shares, at the Purchase Price for a total cost of $68.8 million, excluding fees and expenses related to the Tender Offer. The Tender Offer closed on March 28, 2014.

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Due to the oversubscription of the Tender Offer, we accepted for purchase on a pro rata basis approximately 96.6% of the shares properly tendered and not properly withdrawn at or below the Purchase Price by each tendering shareholder, except for tenders of odd lots, which were accepted in full, and except for certain conditional tenders automatically regarded as withdrawn pursuant to the terms of the Tender Offer.

On February 20, 2014, we also entered into repurchase agreements (the Repurchase Agreements) with each of Carlyle Financial Services Harbor, L.P. (Carlyle) and ACMO-CPF, L.L.C. (Anchorage and together with Carlyle, the Lead Investors), each of whom was the owner of 9,463,095 shares (representing 22.5% of the outstanding shares or 44.9% in the aggregate at that time) of our common stock, pursuant to which we agreed to purchase up to $28.1 million of shares of common stock from each of the Lead Investors at the Purchase Price of the Tender Offer (the Private Repurchases) (or an aggregate of $56.2 million of shares). Conditions to the Private Repurchases were satisfied and we purchased 1,391,089 shares from each of Carlyle and Anchorage at the Purchase Price for a total cost of $56.2 million, excluding fees and expenses related to the Private Repurchases. The Private Repurchases closed on April 7, 2014, the eleventh business day following the expiration of the Tender Offer.

The completion of the Tender Offer and the Private Repurchases resulted in the aggregate repurchase by us of 6,188,066 shares totaling $125 million, or 14.7% of our issued and outstanding shares of our common stock prior to the completion of the Tender Offer and the Private Repurchases. Upon completion of the Tender Offer and Private Repurchases, we had approximately 35.9 million shares outstanding.

On March 26, 2015, the Company, the Selling Shareholders, and the Underwriter entered into the March 2015 Underwriting Agreement pursuant to which the Selling Shareholders agreed to each sell 3,802,694 shares for a total of 7,605,388 shares of CPF common stock, no par value per share, to the Underwriter at a price of $23.01 per common share for a total of approximately $175 million. In connection with the March 2015 Underwriting Agreement, the Company repurchased 3,259,452 shares of its common stock from the Underwriter at a price of $23.01 per share for an aggregate cost of approximately $75 million. On April 1, 2015, the transactions were consummated. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company. The Company incurred $0.4 million in costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders. In addition, the Company incurred $0.2 million in costs recorded in equity related to the repurchase of its common stock from the Underwriter.

On June 4, 2015, the Company, the Selling Shareholders, and the Underwriter entered into another secondary offering underwriting agreement (the June 2015 Underwriting Agreement) pursuant to which the Selling Shareholders agreed to each sell 1,500,000 shares for a total of 3,000,000 shares of CPF common stock, no par value per share, to the Underwriter at a price of $22.15 per common share for a total of approximately $66.5 million. The Company did not receive any of the proceeds from the sale of these shares by the Selling Shareholders and no shares were sold by the Company. In the second quarter of 2015, the Company accrued $0.3 million of costs recorded in other operating expenses related to the secondary offering by the Selling Shareholders.

On May 20, 2014, our Board of Directors authorized the repurchase and retirement of up to $30.0 million of the Company s outstanding common stock (the CPF Repurchase Plan). Repurchases under the CPF Repurchase Plan may be made from time to time on the open market or in privately negotiated transactions.

In January 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by $25.0 million. In March 2015, our Board of Directors increased the authorization under the CPF Repurchase Plan by an additional $75.0 million in connection with the March 2015 Underwriting Agreement. Since the second quarter of 2014, we have repurchased 4,808,335 shares of common stock at an aggregate cost of $105.8 million, excluding fees and expenses, under this program. A total of $24.2 million remained available for repurchase under the CPF Repurchase Plan at June 30, 2015.

As of June 30, 2015, on a stand-alone basis, CPF had an available cash balance of approximately $13.2 million in order to meet its ongoing obligations.

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Trust Preferred Securities

We have four statutory trusts, CPB Capital Trust II, CPB Statutory Trust III, CPB Capital Trust IV and CPB Statutory Trust V, which issued a total of $90.0 million in trust preferred securities. Our obligations with respect to the issuance of the trust preferred securities constitute a full and unconditional guarantee by the Company of each trust s obligations with respect to its trust preferred securities. Subject to certain exceptions and limitations, we may elect from time to time to defer subordinated debenture interest payments, which would result in a deferral of dividend payments on the related trust preferred securities, for up to 20 consecutive quarterly periods without default or penalty.

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Regulatory Capital Ratios

General capital adequacy regulations adopted by the FRB and FDIC require an institution to maintain minimum leverage, Tier 1 and total risk-based capital ratios. In addition to these uniform risk-based capital guidelines and leverage ratios that apply across the industry, the regulators have the discretion to set individual minimum capital requirements for specific institutions at rates significantly above the minimum guidelines and ratios. For a further discussion of the effect of forthcoming changes in required regulatory capital ratios, see the discussion in our Form 10-K Business Supervision and Regulation.

In April 2014 the FRB adopted as final its Basel III interim final rule (Basel III) intended to improve both the quality and quantity of capital for institutions supervised by the FDIC. Basel III implements a revised definition of regulatory capital, adds a new common equity tier 1 (CET1) risk-based capital requirement, increases the minimum tier 1 capital requirement and amends the methodologies for determining risk-weighted assets. Basel III became effective for the Company on January 1, 2015. A new capital conservation buffer comprised of CET1 will be phased-in beginning January 1, 2016 at 0.625% of risk-weighted assets and will increase when fully phased-in up to 2.5% in 2019.

The Company s and the bank s leverage capital, tier 1 risk-based capital, total risk-based capital, and CET1 risk-based capital ratios as of June 30, 2015 were above the levels required for a well capitalized regulatory designation.

The following table sets forth the Company s and the bank s capital ratios, as well as the minimum capital adequacy requirements applicable to all financial institutions as of the dates indicated.

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company						
At June 30, 2015:						
Leverage capital	$ 508,699	10.4%	$ 194,936	4.0%	$ 243,670	5.0%
Tier 1 risk-based capital	508,699	14.5	292,404	6.0	389,872	8.0
Total risk-based capital	552,999	15.7	281,309	8.0	351,636	10.0
CET1 risk-based capital	418,699	11.9	158,236	4.5	228,563	6.5
At December 31, 2014:						
Leverage capital	$ 562,063	12.0%	$ 186,922	4.0%	$ 233,652	5.0%
Tier 1 risk-based capital	562,063	17.0	132,475	4.0	198,712	6.0
Total risk-based capital	603,939	18.2	264,949	8.0	331,187	10.0
Central Pacific Bank						
At June 30, 2015:						
Leverage capital	$ 501,732	10.3%	$ 194,360	4.0%	$ 242,950	5.0%
Tier 1 risk-based capital	501,732	14.3	291,540	6.0	388,720	8.0
Total risk-based capital	546,005	15.5	281,426	8.0	351,782	10.0
CET1 risk-based capital	501,732	14.3	158,302	4.5	228,658	6.5
At December 31, 2014:						

Leverage capital	$	540,276	11.6%	$	186,828	4.0%	$	233,535	5.0%
Tier 1 risk-based capital		540,276	16.3		132,376	4.0		198,564	6.0
Total risk-based capital		582,068	17.6		264,752	8.0		330,940	10.0

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Liquidity and Borrowing Arrangements

Our objective in managing liquidity is to maintain a balance between sources and uses of funds in order to economically meet the cash requirements of customers for loans and deposit withdrawals and participate in lending and investment opportunities as they arise. We monitor our liquidity position in relation to changes in loan and deposit balances on a daily basis to ensure maximum utilization, maintenance of an adequate level of readily marketable assets and access to short-term funding sources.

Core deposits have historically provided us with a sizeable source of relatively stable and low cost funds, but are subject to competitive pressure in our market. In addition to core deposit funding, we also have access to a variety of other short-term and long-term funding sources, which include proceeds from maturities of our investment securities, as well as secondary funding sources such as the FHLB, secured repurchase agreements and the Federal Reserve discount window, available to meet our liquidity needs. While we historically have had access to these other funding sources, access to these sources may not be guaranteed and can be restricted in the future as a result of market conditions or the Company s and bank s financial position.

The bank is a member of and maintained a $1.2 billion line of credit with the FHLB as of June 30, 2015. Short-term borrowings under this arrangement totaled $157.0 million at June 30, 2015, compared to $38.0 million at December 31, 2014, respectively. There were no long-term borrowings under this arrangement at June 30, 2015 and December 31, 2014. FHLB advances outstanding at June 30, 2015 were secured by unencumbered investment securities with a fair value of $0.7 million and certain real estate loans with a carrying value of $1.6 billion in accordance with the collateral provisions of the Advances, Security and Deposit Agreement with the FHLB. At June 30, 2015, $1.0 billion was undrawn under this arrangement.

At June 30, 2015 and December 31, 2014, our bank had additional unused borrowings available at the Federal Reserve discount window of $27.5 million and $33.3 million, respectively. As of June 30, 2015 and December 31, 2014, certain commercial and commercial real estate loans with a carrying value totaling $54.3 million and $72.9 million, respectively, were pledged as collateral on our line of credit with the Federal Reserve discount window. The Federal Reserve does not have the right to sell or repledge these loans.

Our ability to maintain adequate levels of liquidity is dependent on our ability to continue to maintain our strong risk profile and capital base. Our liquidity may also be negatively impacted by weakness in the financial markets and industry-wide reductions in liquidity.

Contractual Obligations

Information regarding our contractual obligations is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes in our contractual obligations since December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices such as interest rates, foreign currency rates, commodity prices and equity prices. Our primary market risk exposure is interest rate risk that occurs when rate-sensitive assets and rate-sensitive liabilities mature or reprice during different periods or in differing amounts. Asset/liability management attempts to coordinate our rate-sensitive assets and rate-sensitive liabilities to meet our financial objectives. The Asset/Liability Committee (ALCO) monitors interest rate risk through the use of interest rate sensitivity gap, net interest income and market value of portfolio equity simulation, and rate shock analyses. Adverse interest rate risk exposures are managed through the shortening or lengthening of the duration of assets and liabilities.

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The primary analytical tool we use to measure and manage our interest rate risk is a simulation model that projects changes in net interest income (NII) as market interest rates change. Our ALCO policy requires that simulated changes in NII should be within certain specified ranges, or steps must be taken to reduce interest rate risk. The results of the model indicate that the mix of rate-sensitive assets and liabilities at June 30, 2015 would not result in a fluctuation of NII that would exceed the established policy limits.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended, (the Exchange Act), the Company s management, including the Chief Executive Officer and Principal Financial and Accounting Officer, conducted an evaluation of the effectiveness and design of the Company s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based upon that evaluation, the Company s Chief Executive Officer and Principal Financial and Accounting Officer concluded, as of the end of the period covered by this report, that the Company s disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

As of the end of the period covered by this report, there have been no changes in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter to which this report relates that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from the Risk Factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on February 27, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

In the second quarter of 2015, 3,476,952 shares of common stock, at an aggregate cost of $80.0 million, excluding fees and expenses, were repurchased under this program as described in the table below. A total of $24.2 million remained available for repurchase under the program at June 30, 2015.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Shares Purchased as Part of Publicly Announced Programs		Maximum Dollar Value of Shares That May Yet Be Purchased Under the Program(1)
April 1-30	3,259,452	$	23.01	3,259,452	$	29,241,198
May 1-31	158,300		22.94	158,300		25,609,608
June 1-30	59,200		23.27	59,200		24,232,109
Total	3,476,952	$	23.01	3,476,952	$	24,232,109

(1) Our Board of Directors (the BOD) first authorized the repurchase and retirement of up to $30 million of the Company s outstanding common stock (the CPF Repurchase Plan) on May 20, 2014. On January 28, 2015, the BOD increased the authorization under the CPF Repurchase Plan by $25 million. On March 24, 2015, the BOD increased the authorization by an additional $75 million. As of June 30, 2015, $24.2 million remained of the total $130 million total repurchase amount authorized by the BOD under the CPF Repurchase Plan. The plan has no set expiration or termination date.

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Item 6. Exhibits

Exhibit No.	Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Rule 13a-14(a) Certification of Chief Financial Officer in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Section 1350 Certification of Chief Executive Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
32.2	Section 1350 Certification of Chief Financial Officer in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Filed herewith.

** Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CENTRAL PACIFIC FINANCIAL CORP. (Registrant)
Date: August 3, 2015	/s/ A. Catherine Ngo A. Catherine Ngo President and Chief Executive Officer
Date: August 3, 2015	/s/ David S. Morimoto David S. Morimoto Executive Vice President and Chief Financial Officer

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Central Pacific Financial Corp.

Exhibit Index

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